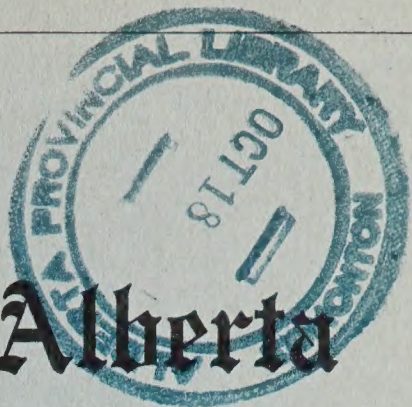


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The Province of Alberta

PETROLEUM AND NATURAL GAS CONSERVATION BOARD

Application for Permission to Remove or cause to be removed
Natural Gas from the Province of Alberta, under the Provisions of the
Gas Resources Preservation Act by Prairie Pipe Lines Limited.

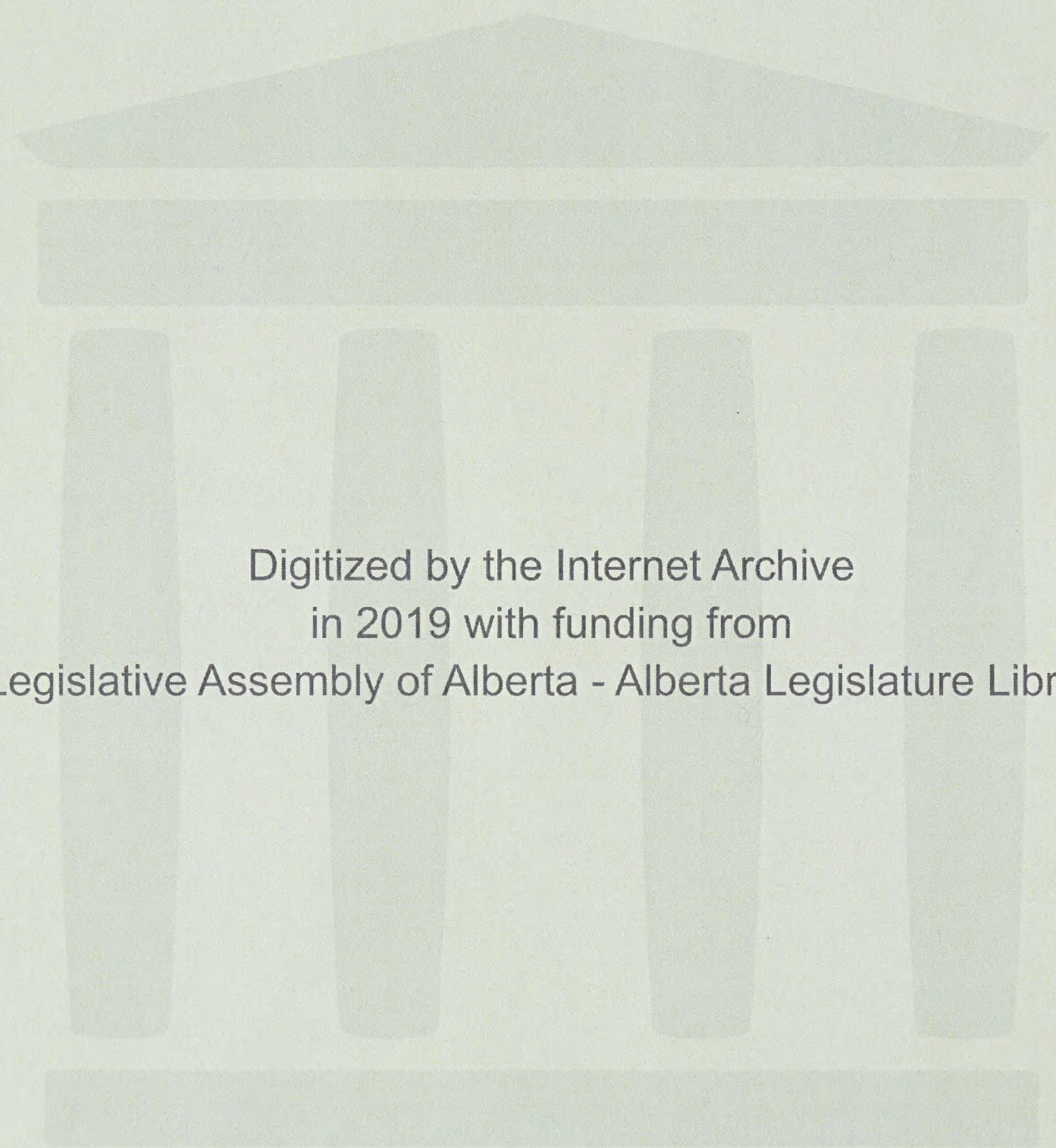
I. N. McKinnon Esq., Chairman

D. P. Goodall Esq.

Dr. G. W. Govier

Session: OCTOBER 12th, 1950.

Volume 3



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I N D E X

VOLUME 3.

October 12, 1950.

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HALES H. ROSS

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Hales H. Ross,
Dir. Ex. by Mr. S. B. Smith.

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VOLUME 3

October 12, 1950.

MR. S. B. SMITH: Sirs, we have had here for two days Mr. Hales H. Ross, who was the former President of Prairie Pipe Lines Limited. His evidence will be very short and I would like the privilege, if I could, of calling Mr. Ross so we may let him away and then I propose that we put Mr. Herring back on the stand as soon as we have completed Mr. Ross' evidence.

THE CHAIRMAN: Very well.

HALES H. ROSS, having been duly sworn, examined by Mr. S. B. Smith, testified as follows:-

Q Mr. Ross, you live in Edmonton?

A Yes, sir.

Q How old are you?

A That is a nasty question to ask. I am 76 next May.

Q How long have you lived in Western Canada?

A Since I was five years of age.

Q And what businesses have you been in, Mr. Ross?

A The lumber business, all my life.

Q Have you been associated in any other businesses in recent years besides the lumber business?

A Well, I have done a little in the oil business, having drilled seven wells and having got six producers.

Q In what fields?

A The Leduc field.

Q And you are associated with certain private companies in that field?

Witness H. Ross
Examined by Mr. E. B. Smith

VOLUME 1
October 12, 1930
Harris, H. Ross

Q Now, you have had time for two days to think over the testimony of Mr. H. Ross, who was the witness who testified that the pipe lines limited his testimony with the very facts and I would like the privilege to ask you, if you could, to explain Mr. Ross so we may get the story and then I propose that we put Mr. H. Ross back on the stand as soon as we have completed Mr. Ross' testimony.

A Yes, well.

HAIRIS H. ROSS, having been duly

sworn, examined by Mr. E. B. Smith, testified as follows:

Q Now, you live in Edmonston, Maryland, is that right?

A Yes, sir.

Q How old are you?

A That is a hard question to ask. I am 35 years May.

Q How long have you lived in Edmonston, Maryland?

A Since I was five years of age.

Q And what business have you been in, Mr. Ross?

A The lumber business, sir, as long as I can remember.

Q Have you been associated in any other business in recent years besides the lumber business?

A Well, I have been a little in the oil business, having drilled seven wells and have got all the production.

Q In what capacity?

A The laborer.

Q And you are associated with certain private companies in the oil business?

A Yes, sir.

Hales H. Ross,
Dir. Ex. by Mr. S. B. Smith.

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A That is right.

Q In that kind of business?

A Yes, that is right.

Q You became a shareholder in Prairie Pipe Lines Limited some months ago?

A That is right.

Q And you were elected President of that company in 1950?

A That is right.

Q And in a general way who were the shareholders of Prairie Pipe Lines before the arrangements which were made with Pacific Northwest last September?

A Well, I have a partial list of them with me.

Q Well, generally, they were mainly Canadians?

A As a matter of fact, practically all Canadians.

Q I do not want a complete list but are there a lot of Albertans shareholders of Prairie Pipe Lines Limited?

A Yes, sir, there are.

Q Would you give us the names of some of those people?

A There is Marshall E. Manning, Bruce Whittaker, Alexander Gillespie, Archer J. Toole, Chester Gilchrist, Thomas Riddell, myself, Dr. W. C. MacKenzie, Walter Sprague, C. H. Chapman, Kenneth Coppock, George Coutts, Dr. J. O. Baker, A. Newton, A. G. Bailey, Glen M. Wilton, Lee Williams, Hugh E. Pearson, Allan McClean, W. L. Wilkin Ltd., Dr. John W. Scott, S. R. Stevens, John F. McDougall, Allan H. Nash, James M. Taylor, John C. McDougall, Cyrille E. Davignon, George R. Howsam, Harry B. Armstrong, Thornton A. Graham, Ellen Margaret Scott, H. Kelly and Paul D. Bowlen. That is only a partial list. I just happened to

Mr. E. H. ...

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Hales H. Ross,
Dir. Ex. by Mr. S. B. Smith.

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have it with me.

Q I see. And those people are all residents of Alberta with the exception of Mr. Wilton?

A All prominent people in Alberta.

MR. C. E. SMITH: Some of them own horses, I believe?

MR. S. B. SMITH: Yes, one or two of them do. Have pretty fair horses I think.

Q Mr. Ross, you are familiar, of course, with the arrangements which were made between Prairie Pipe Lines Limited and the Pacific Northwest early in September?

A That is right.

Q In fact, I think you presided at the shareholders meeting at which the shareholders of Prairie Pipe Lines Limited decided to effect the arrangements with Pacific Northwest?

A That is right.

Q How did it come about from the point of view of Prairie Pipe Lines Limited that that arrangement was entered into?

A If you want to hear the story - -

Q Not in too much detail. Perhaps my learned friends would not mind me leading a bit. You learned an application had been made by Pacific Northwest to this Board for a permit to export gas?

A Yes.

Q That is, Prairie Pipe Lines learned that?

A Yes.

Q And some investigation was carried on, and as a result of having learned of that fact?

A Yes.

Q As a result of the investigations what conclusions were

Witness: J. Edgar Hoover
Date: May 12, 1964

have it with me.

Q I see. And those people are all residents of Alaska who

the exception of Mr. Wilson?

A All prominent people in Alaska.

Q Some of them are here, I believe.

Mr. C. E. Smith

Q Yes, one or two of them are.

Mr. B. P. Smith

He's still here, I think.

Q Mr. Rose, you are familiar with the government

which were made between President John F. Kennedy and

the Pacific Northwest early in 1961?

A Yes, sir.

Q In fact, I think you presided at the summit meeting

at which the representatives of Russia and the United States

decided to effect the arrangement with Pacific Northwest

A That is right.

Q Now this came about from the matter of the

paper which listed that that arrangement was entered into

A It was used to hear the story --

Q Not in too much detail. Perhaps the last time you

was involved in this. You learned an awful lot about

what was going on in the Northwest at this time, is that

to, except that?

A Yes.

Q That is, that the paper listed that?

A Yes.

Q And since investigation was conducted, and as a result

of that, learned of what that?

A Yes.

Q As a result of the investigation which was conducted?

Hales H. Ross,
Dir. Ex. by Mr. S. B. Smith.

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arrived at by the officials and officers of Prairie Pipe Lines Limited?

A Well, may I say this to you, sir, that Prairie Pipe Lines were going along in the usual way and getting their stuff ready and so on and we finally saw in the paper the Pacific Northwest were going to build a line from Texas to the border to serve the territory which we figured that we would serve, that is, the Pacific north west.

Q Yes.

A We were a little annoyed, I may say, at that.

Q And somewhat concerned?

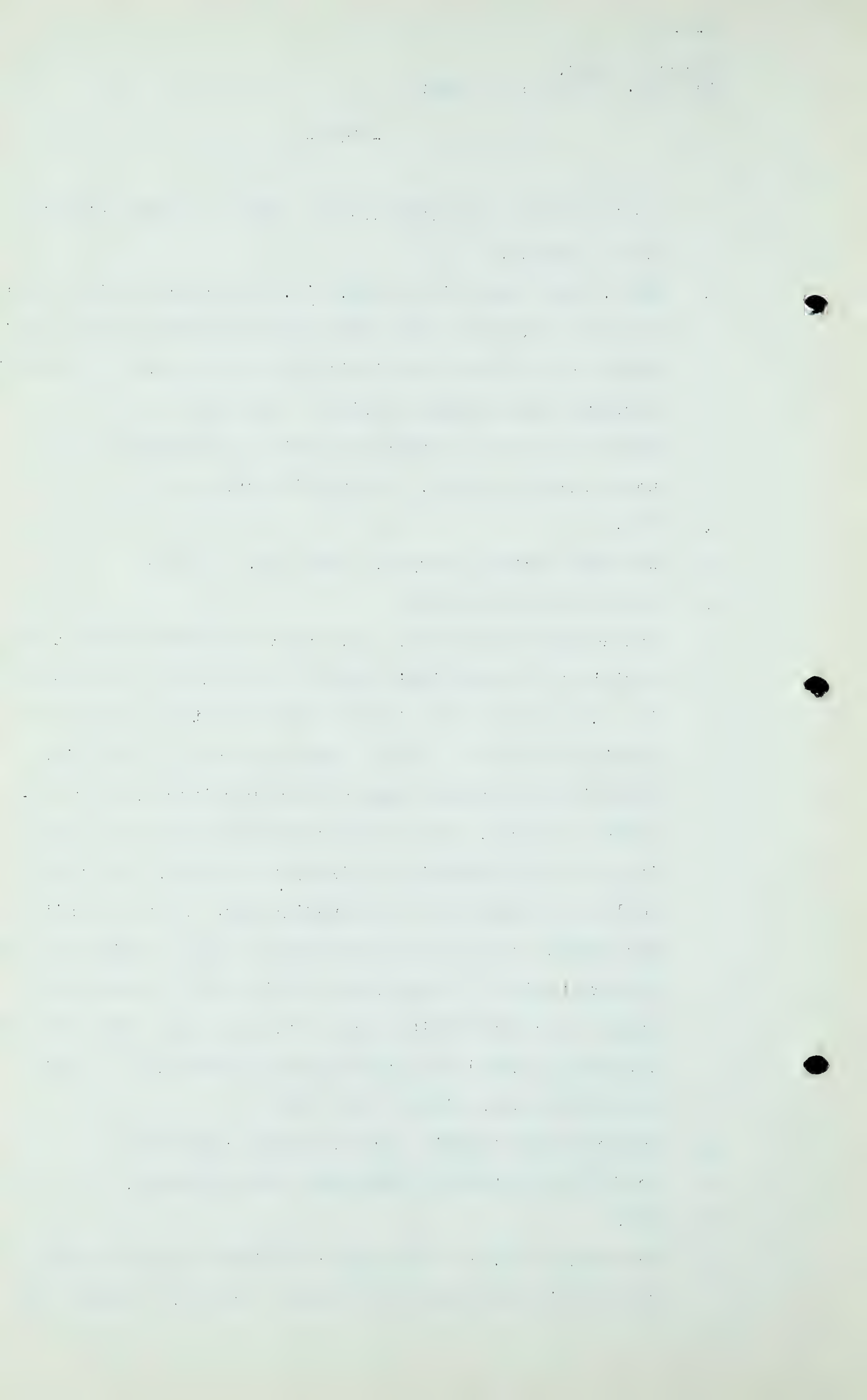
A And somewhat concerned, yes, and we afterwards made a trip, a visit to Mr. Manning's office to see what he knew about it. We had also seen in the paper that they had had a meeting with him. Now our idea was that if they built this line they would take the very territory that we intended to serve, and if they got there before us, which it was in all probability likely they would, then there would be nothing left for Canadian gas. So the committee who waited on Mr. Manning decided to call Mr. Wilton. Our idea was this, if something could be done to amalgamate these two companies it would ensure at least some sale of Alberta gas and if we did not, the chances are the sale of Alberta gas would be shut off.

Q So far as the Pacific north west was concerned?

A So far as the Pacific north west was concerned, yes.

Q Yes?

A More than that, if the Pacific Northwest took the north west territory, which was Spokane, Seattle, Portland and



Hales H. Ross,
Dir. Ex. by Mr. S. B. Smith.

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so on, there would be no chance of our building a line to the West from Alberta.

Q You are speaking particularly of Vancouver, are you?

A That is right. Our thought was if we could amalgamate we could at least get a sale for some Alberta gas, and incidentally, might recoup some of our own money.

Q Yes?

A Now with that in mind, we 'phoned Mr. Wilton at Toronto and urged that he go and see Mr. Fish and Mr. Herring. He was not, I might say, too anxious to do this, but finally we persuaded him and he met them in Seattle. He 'phoned us to see if a deal could be made and they had talked this over and the final result was Mr. Herring came with Mr. Wilton over to Edmonton.

Q And met the shareholders?

A And met the shareholders. We called a meeting of the shareholders and I think there was about 90% of the shareholders present there.

Q The whole thing was laid out before the shareholders?

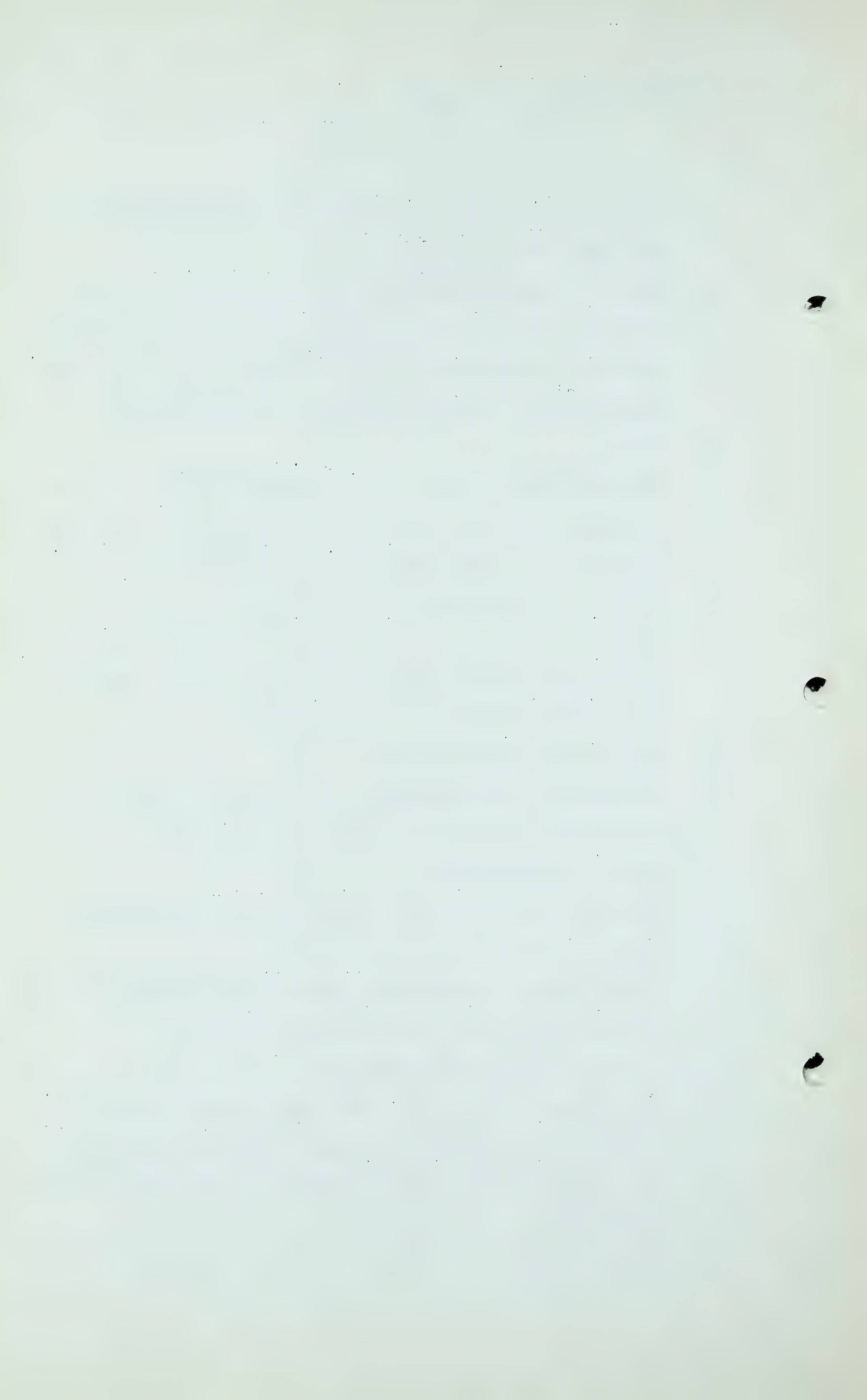
A That is right.

Q In the result the Canadian shareholders decided to go in and make this deal with Pacific Northwest?

A They voted for it unanimously.

Q The position is now that the former shareholders, the Canadian shareholders and in fact all the shareholders of Prairie Pipe Lines Limited are now shareholders of Pacific Northwest?

A That is right.



Hales H. Ross,
Dir. Ex. by Mr. S. B. Smith.

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Q Now, Mr. Ross, I know you do not pretend to be an expert in the field of gas?

A I certainly don't.

Q But you were sufficiently interested to get into this business, the business in relation to gas export, while you were dealing with the Pacific Northwest and these negotiations were going on and plans for the negotiations. Did you, yourself, have any views about the amount of gas available in Alberta, if any, for export?

A Well, naturally, the views I had of course were from what I heard and in speaking to the Government at the same time. I was particularly well pleased when we finalized this deal because Pacific Northwest agreed to take 100 million cubic feet a day, which was probably all that Alberta would want to export at the beginning. And then they agreed as they accumulated, or more gas became available, that they would take it also. I thought it was much better for Alberta than some other company forming and trying offhand to export much more than that.

Q Why did you think that, Mr. Ross?

A Well, because the gas reserves are not proven up yet. Mr. Manning has always stated that Alberta must be looked after first.

Q Does that cover what you want to say?

A Just about it.

Q Have you anything to add?

A That is about all.

Q Then would you answer my friends, please, Mr. Ross?

Hales H. Ross,
Cr. Ex. by Mr. Nolan.

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CROSS-EXAMINATION BY MR. NOLAN:

Q There was just one question, Mr. Ross, I would like to ask you, if I may, and that is if Prairie does not receive an export permit from this Board, what happens to the beautiful friendship between Pacific Northwest and Prairie Pipe Lines?

A I presume that our stockholders will retain their stock they have in Pacific Northwest. That will be all that will happen.

Q The agreement between the Prairie companies and the Pacific Northwest, whereby Prairie agreed to acquire and deliver gas to the Pacific Northwest would be cancelled, would it not?

A I do not know that they had an agreement to deliver gas.
MR. S. B. SMITH: There is an agreement. I do not think Mr. Ross has read it, as far as I know. The agreement is in evidence. It has been made available to the Board and it is available to my friend. He know the terms of it.

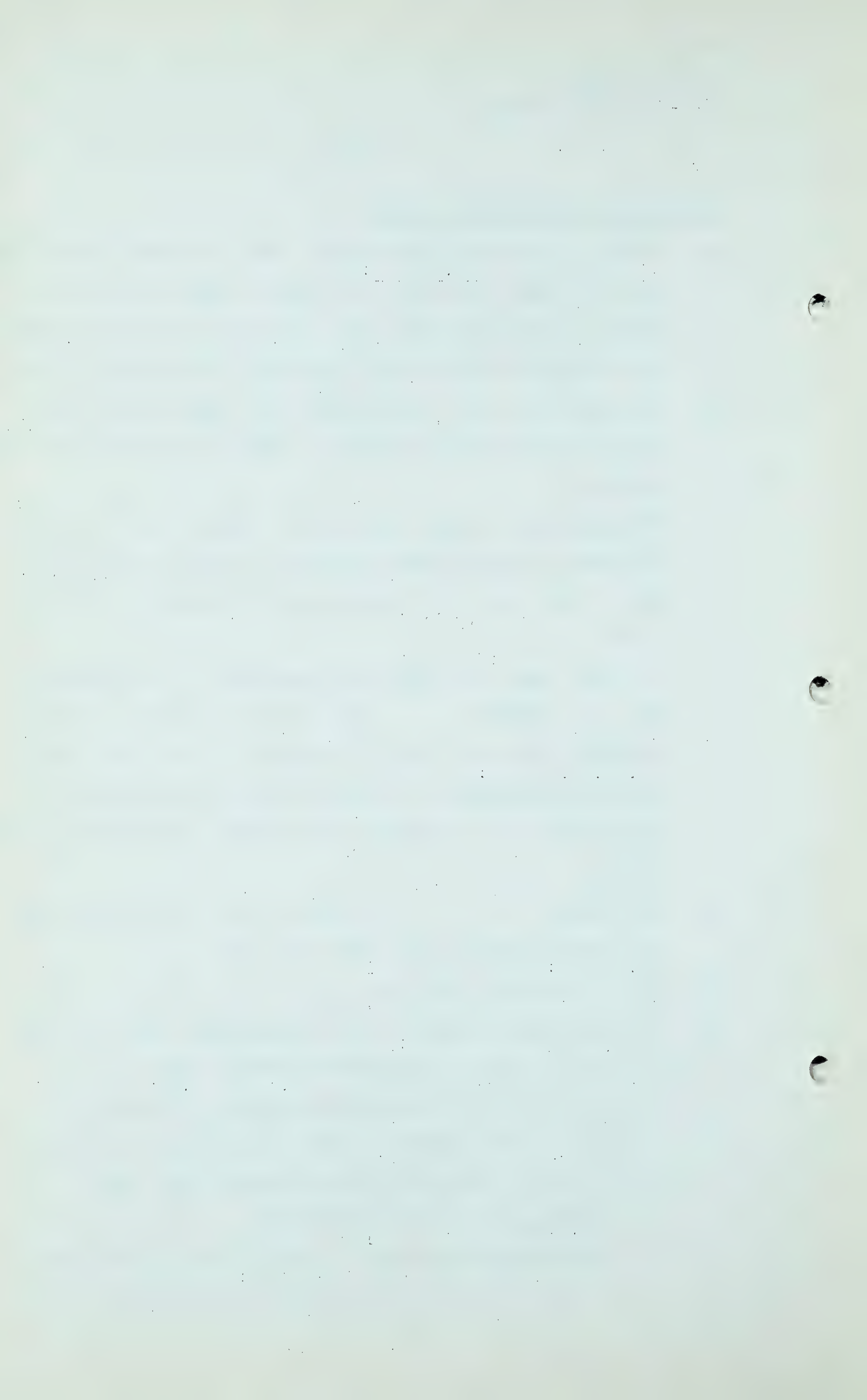
Q MR. NOLAN: Perhaps if Mr. Ross has not read it, he will permit me to read it to him.

A Well, I have not read it.

Q I am reading from Page 4 of the Agreement, dated the 6th of October, which is appended to Exhibit No. 1.

"Subject to the hereinafter stated conditions the term of this agreement shall commence on the date of initial delivery of gas hereunder and shall continue for 20 years thereafter;

(1) This agreement may be cancelled by either party upon 30 days written notice of intention so to



Hales H. Ross,
Cr. Ex. by Mr. Nolan.
Cr. Ex. by Mr. Martland.

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" do, in the event of

(a) the failure of Prairie to secure an export
permit from the Province of Alberta, allowing
Prairie to perform its obligations hereunder."

A Yes.

Q Thank you.

CROSS-EXAMINATION BY MR. MARTLAND:

Q Can you tell us who are the shareholders of Prairie Pipe
Lines Limited now?

A Well, the same bunch. That is, Prairie Pipe Lines are
owned now by Pacific Northwest.

Q Yes, that is what I thought. Does the Pacific Northwest
Pipe Lines Corporation own all of the stock of Prairie
Pipe Lines Limited now?

A Well, I take it they do because the stockholders formed
the company and simply traded their stock for stock in
the Pacific Northwest.

Q Am I correct that the deal was that the shareholders of
Prairie Pipe Lines, whose names you have read to us, sold
out their shares in Prairie Pipe Lines Limited to Pacific
Northwest Pipe Lines Corporation in return for a stock
interest in Pacific Northwest, plus a cash consideration?

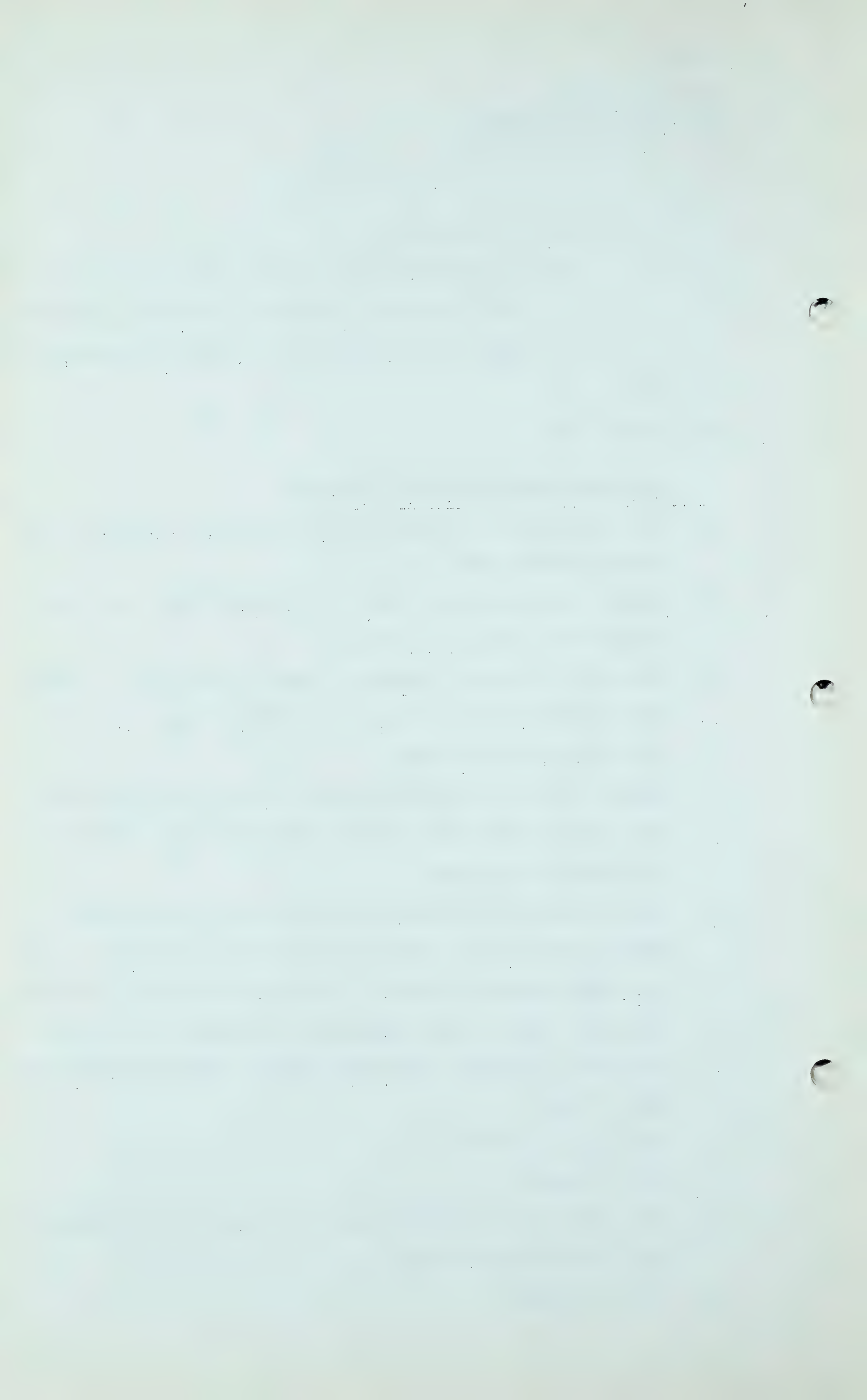
A No, no cash.

Q There was no cash?

A No, no cash.

Q They just took a stock interest in the Pacific Northwest
Pipe Lines Corporation?

A That is right.



Hales F. Ross,
Cr. Ex. by Mr. Martland.
Cr. Ex. by Mr. McDonald.

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Q In place of what they had before?

A That is right.

Q You were aware, Mr. Ross, I suppose, that the original application filed with this Board by Prairie Pipe Lines Limited said that the Company would not become a subsidiary of any foreign corporation?

A Well I did not know that, Mr. Martland.

Q All right, thanks.

CROSS-EXAMINATION BY MR. McDONALD:

Q What position did you hold with the Prairie Transmission Company?

A Prairie Pipe Lines.

Q Were you an officer of the Prairie Transmission Company?

A I presume in turn I was, because that is a subsidiary. I was President of Prairie Pipe Lines.

Q I was just wondering. I have followed your company for some time, but this is the first time you have taken an official position with regard to it?

A No, I was interested from the start. I was President of Prairie Pipe Lines.

Q You did not appear in Ottawa on the application for the incorporation of Prairie Transmission Company?

A No, I did not.

Q You were not in attendance before the Board, the Committee of Transportation of the House of Commons?

A This is the first time I have attended anything.

Q You were represented there, I think, by a lawyer by the name of Elgin, was it? Do you know his name?

A No, I don't.



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Hales H. Ross,
Cr. Ex. by Mr. McDonald.

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MR. S. B. SMITH: Mr. John Edison, of Toronto.

A I did not know anything about that. Our solicitor handled all that.

Q MR. McDONALD: I am going to suggest to you Prairie Pipe Lines Limited was incorporated by a man named Wilton from Toronto, who made application for the incorporation?

A Yes.

Q He also incorporated a company in Saskatchewan under the same name?

A I did not know.

Q You did not know about that?

A There are a lot of things I did not know about.

Q I presume Mr. Wilton was managing director.

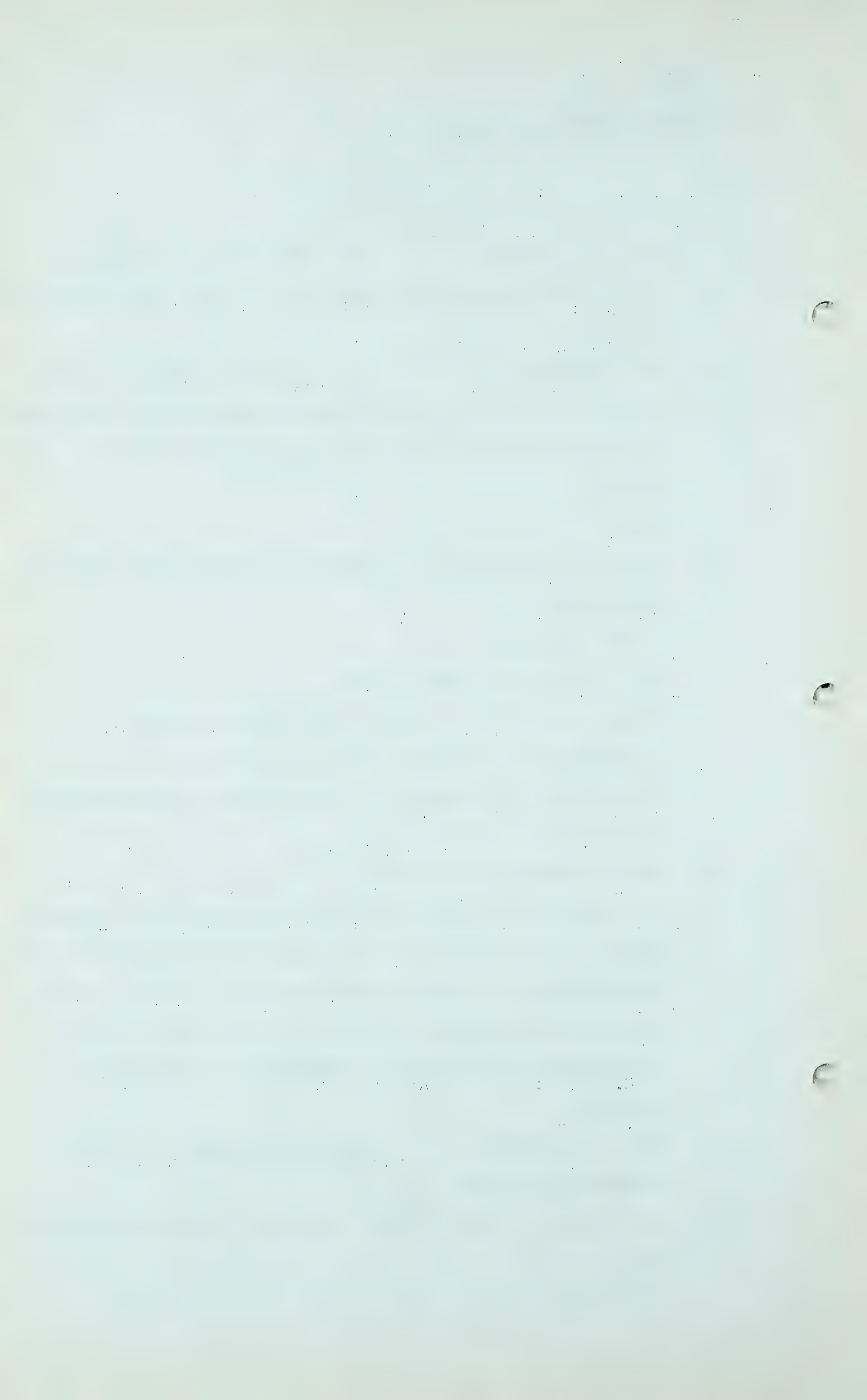
A He was only a director. I do not think he was managing director.

Q Who was managing director?

A Mr. Wilton is the man who really conceived this idea of setting this company up. He came to Edmonton and Mr. Smith introduced me to him. He had this idea in mind, he explained it to me and I thought it was a good one for Canadians to get in and do something for the Province of Alberta.

Q MR. C. E. SMITH: And make a couple of bucks, I suppose, Mr. Ross?

A As a matter of fact it has turned out so far that we have not.



Hales H. Ross,
Cr. Ex. by Mr. McDonald.
Robert R. Herring,
Ex. by Mr. S.B. Smith.

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Q As I understand it, Mr. Wilton is the driving spirit in the company, or he was?

A Well, he was, yes. You could call him a promoter.

Q And that is the reason when you got this idea of changing the status of your company that you had to consult Mr. Wilton and leave the arrangements to him?

A I do not think we had to consult him but he was the man who was taking the initiative all the time, but he could not make a deal without having it confirmed by us.

Q MR. S.B. SMITH: As a matter of fact, Mr. Ross, I think you said earlier the shareholders of Prairie told Mr. Wilton what they wanted to do, isn't that the situation?

A Yes.

MR. FENERTY: As far as they knew.

Q MR. S.B. SMITH: Did they know what they were doing, Mr. Ross? I will now, sir, put Mr. Herring on the stand again.

ROBERT R. HERRING, already sworn, examined by Mr. S.B. Smith, testified as follows:

Q I have, sirs, a few questions I would like to ask Mr. Herring, perhaps before my friends commence cross-examination, two or three subjects I would like to examine into but not at great length, if I may have that permission.

THE CHAIRMAN: Yes.

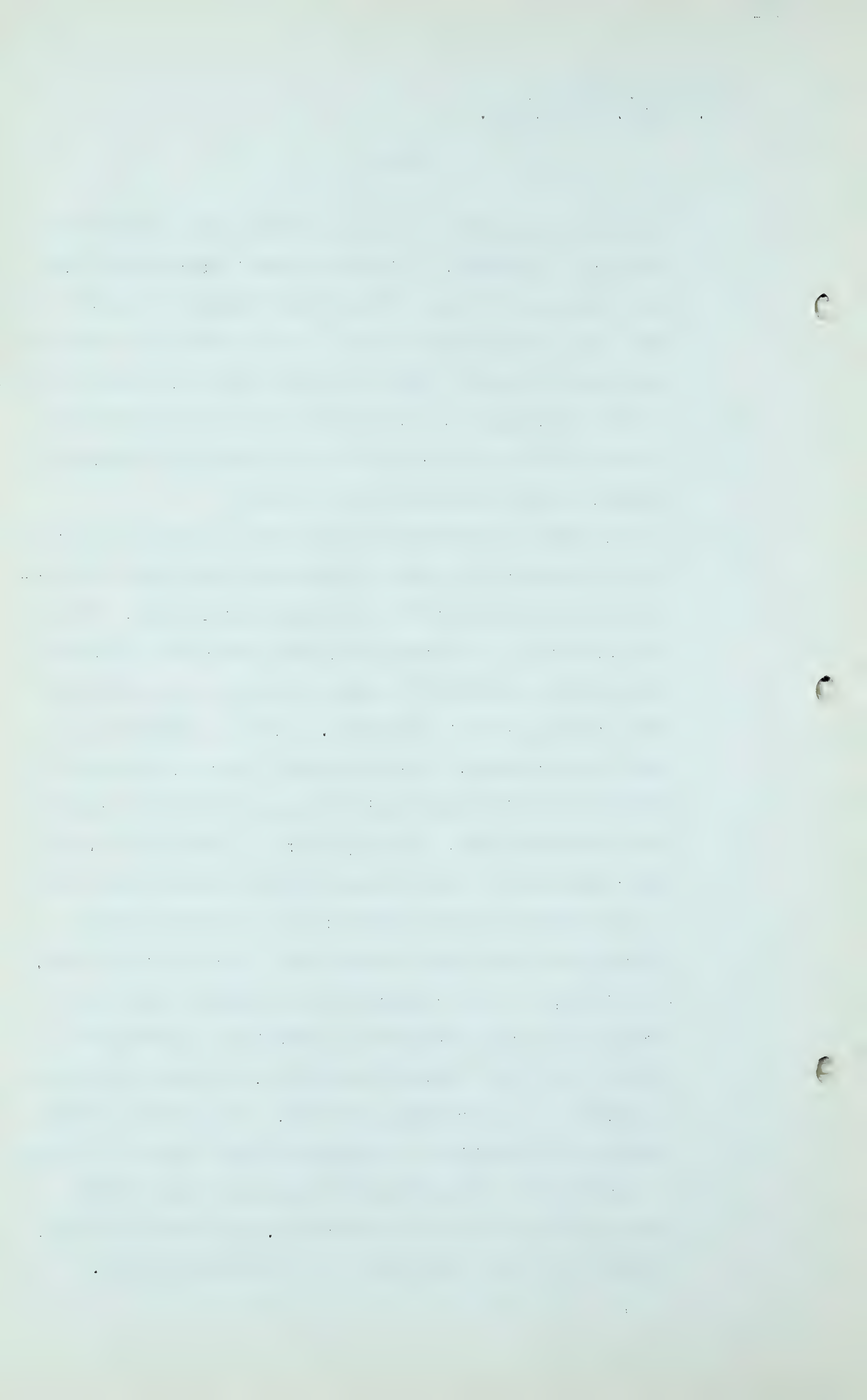
Q MR. S.B. SMITH: Mr. Herring, there was some discussion yesterday upon the subject of the reserves of Alberta, the proven reserves, and the advisability or the

Robert R. Herring,
Ex. by Mr. S.B. Smith.

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necessity of looking after or insuring the needs of the Province of Alberta. I think the word "dedication" may have been used by one or two of my friends. I am not sure that that is the right word to use in relation to that but you know the subject that I am referring to. Have you anything to add upon the subject of the proven reserves of Alberta and the protecting of the needs of the people of Alberta in even the foreseeable future?

A I would like to reemphasize the point that was brought out in our testimony in previous Hearings concerning the protection of the market for the people of Alberta. It is the opinion of our company that the Province of Alberta should have a dedicated volume of proven gas available for a period of 40 to 50 years. We have stated so in previous testimony. Such reserves, however, need not be completely deliverable until the market actually requires such deliverability. The applicant before this Board has requested gas from Pincher Creek or such other fields as the Commission may direct in such volume to serve 100 million cubic feet per day for a period of 20 years. This field, not now connected to any system, has been declared by some geologists as probable. In order to protect this local dedication of gas, Prairie is willing to gamble on the probable reserves. We are not asking and have no intention of asking that the people of Alberta be deprived of proven reserves which are required in establishing 50 years of dedication, as submitted in Mr. Galloway's report which will be testified to later.



Robert R. Herring,
Ex. by Mr. S.B. Smith.

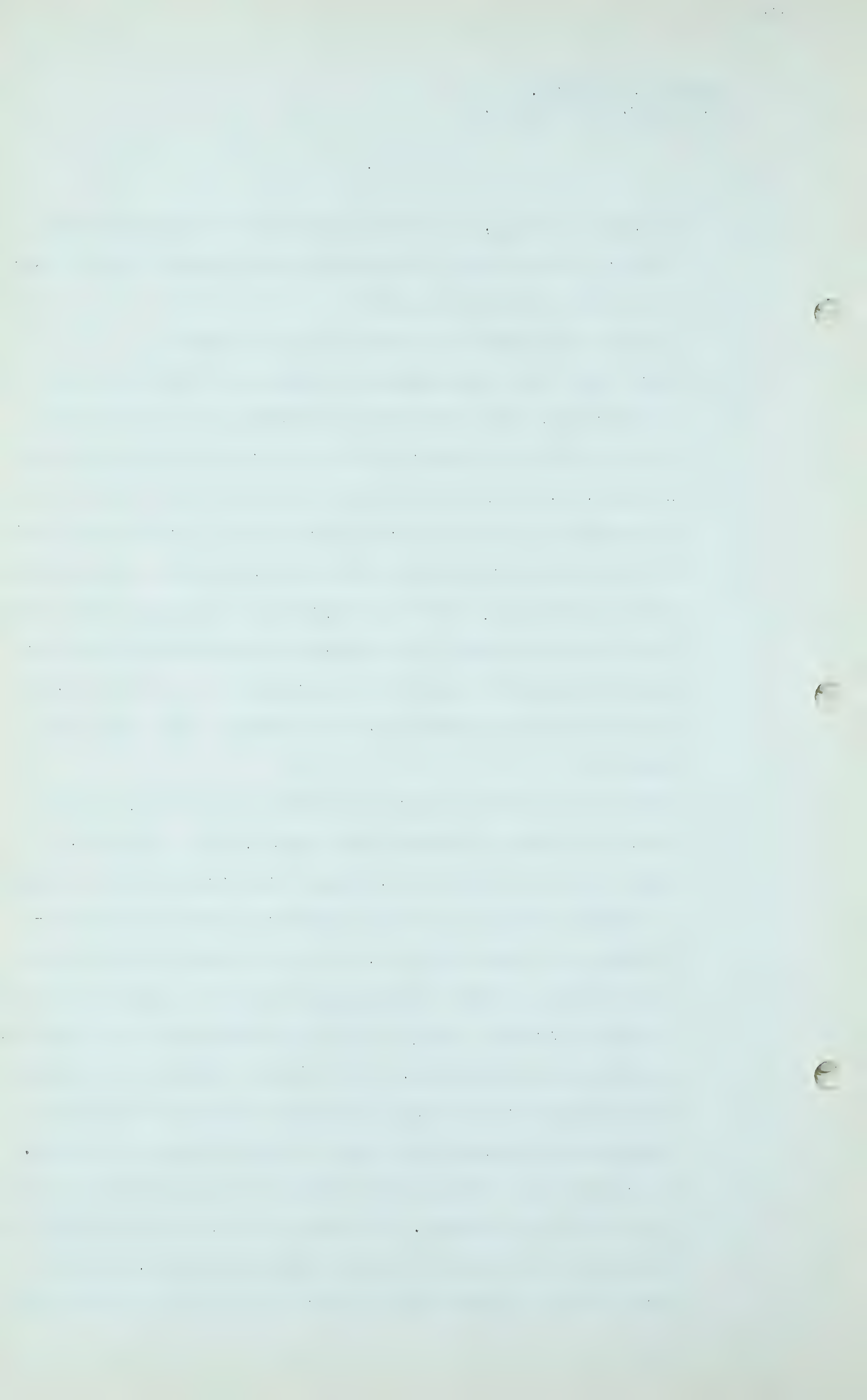
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Q Now, Mr. Herring, is that all you want to say about the subject of the needs of Alberta at the present time? Anything else you wish to add?

A I think that makes our position quite clear.

Q There has been considerable discussion throughout these proceedings, some discussion yesterday, relating to the subject of the construction of a so-called grid system for Alberta. Would you give your views as to the necessity or the advisability of the construction of a grid system such as that proposed by Inter-Field Grid, and I am referring to the construction of it at the present time and I would like you to take us along in the future a ways and discuss not only the present necessity and advisability but the future necessity and advisability, your general views upon the subject?

A I would not want to represent that any testimony by me would be expert testimony on a grid system. However, I have spent my entire life, though somewhat limited in years, in the gas fields of Texas. My father before me was involved in the gas business, and I have watched the growth of gathering systems through gas reserves. Information which I wish to present to the Board is a reiteration of that which we previously presented, but it is our desire to be helpful to the Board in arriving at the best solutions for their problems inside Alberta, which is their primary function, to protect the local people and solve their problems to the best of their judgment. We hope that our testimony will be helpful to the Board in making such a decision, and in making these observations I bear in mind what is developing



Robert R. Herring,
Ex. by Mr. S.B. Smith.

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in other gas areas in this North American continent of ours, and I would like to make this statement.

Such a grid system as proposed for construction immediately of sufficient capacity to serve a reasonable export volume and the requirements of the local utilities either on a complete basis or a participating basis to those areas which are now the depositories of proven reserves would require a certain amount of capital investment. To amortize this investment all participants, that, the exporting company and its consumers and the local utilities and their consumers, would necessarily have to pay a higher price for gas.

The more economic view of the gathering of gas in Alberta would be a continuation of the present extensions of service lines by the local utilities as unconnected proven reserves are required or as additional reserves are discovered and proven and as the demands of the local markets require the additional service. The necessary investment to make these extensions can be handled by the local utilities as a part of their yearly increases in plant investment without excessive increases in the price of gas to consumers, if any increase at all. It would be unfair to place any of the burden of the exported gas cost on the local consumers. The market proposed to be served by the exporting company should support the construction of sufficient capacity to the actual source of gas allocated to it.

Robert R. Herring,
Ex. by Mr. S.B. Smith.

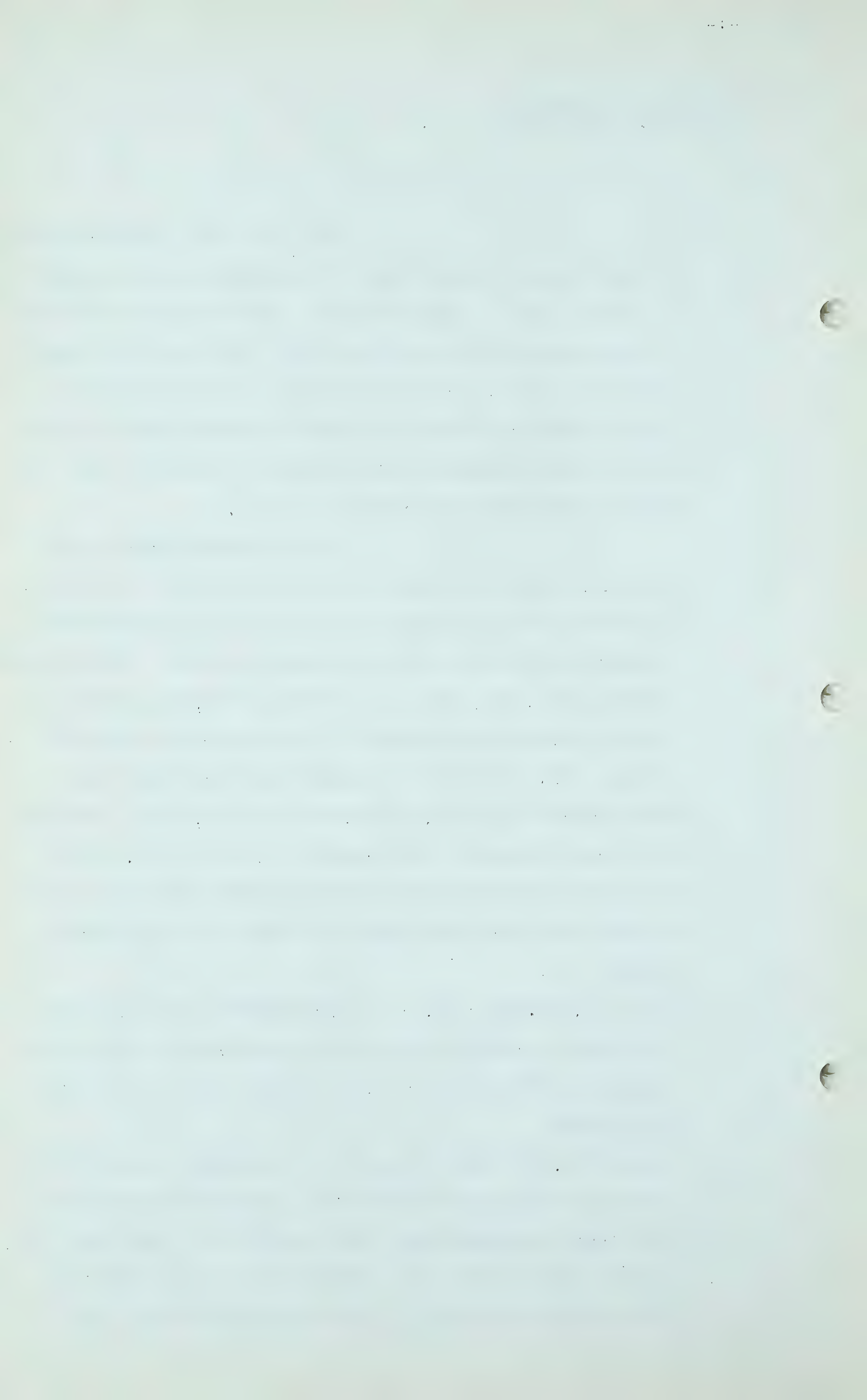
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The only restrictive feature of such a policy would relate to extremely small deposits of natural gas in isolated areas. These could be gathered by local companies or an export line only as a servicing line for one of these two depending upon accessibility. A grid system proposed which would encompass all of these isolated small deposits would place an excessive cost upon the consumers who must support it.

As the proven reserves of Alberta increase and more and more export lines traverse the Province to the sources of gas, and as the gathering systems of the local utilities expand to meet their growing demands, they will cross and recross, becoming complementary essentially serving in the result as a gas grid system. The system will therefore grow naturally and progressively or, as Mr. Fish put it, like Topsy without placing an excessive cost burden on anyone. That is the objective of not only our own applicant before this Board but the local utilities, and the function of this Board itself.

Q Now, Mr. Herring, can you at the present time be of any assistance in relation to the deliverability of the proven reserves of Alberta in relation to the needs of the people of Alberta?

A Again, I would like to qualify my statement in that I do not speak with the experience and possibly the background that other witnesses have had available for the Board, but I would like to make some observations in the light of deliverability as well as the other points that I have

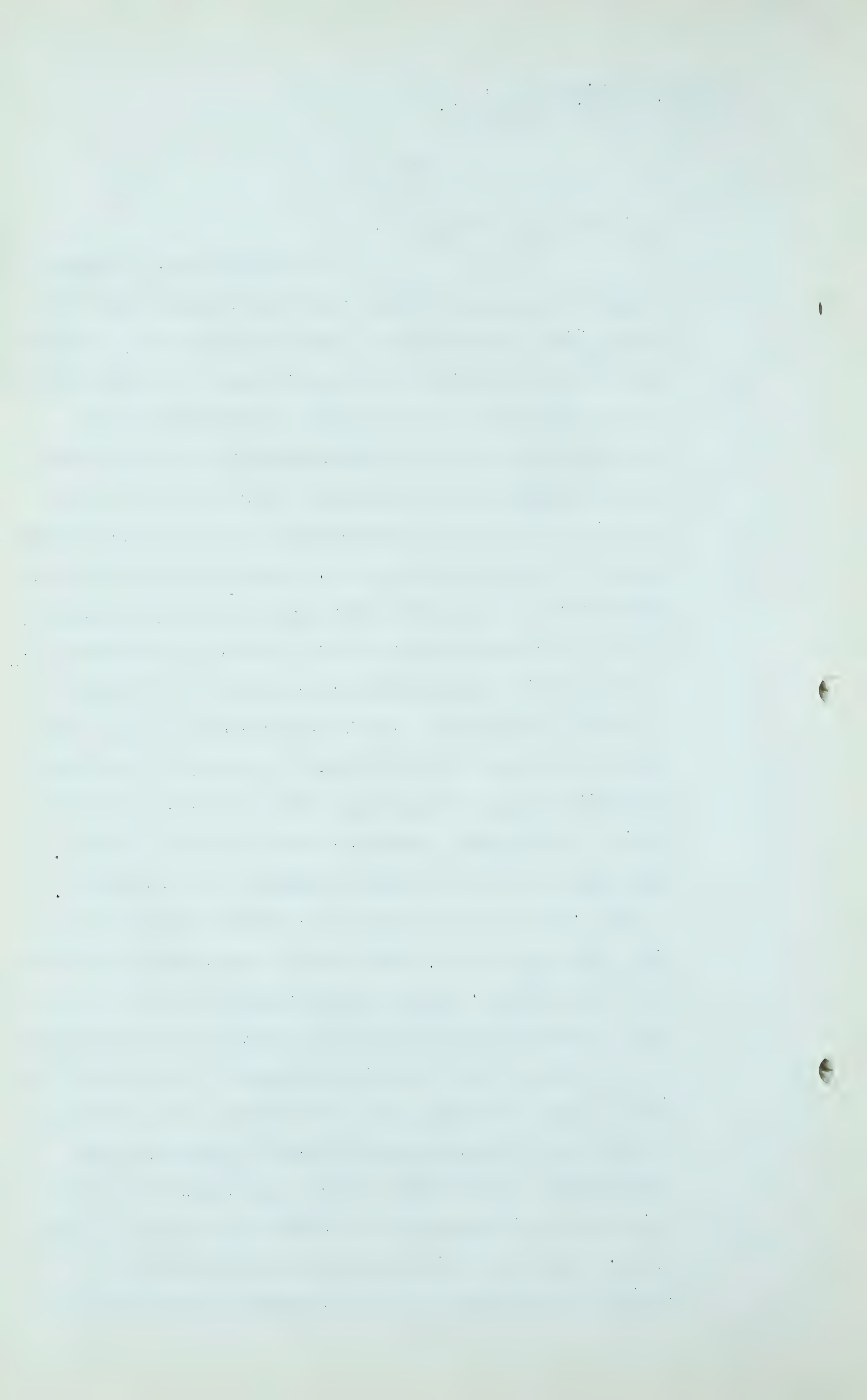


Robert R. Herring,
Ex. by Mr. S.B. Smith.

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discussed this morning.

In considering the request of the Petroleum and Natural Gas Conservation Board of Alberta that our companies present evidence as to deliverability of the various fields in Alberta, it is the opinion of our companies that the primary problem before the Petroleum and Natural Gas Conservation Board is not the per well delivery at the present time but is the amount of gas that can be made deliverable as the various markets require it from these fields. In that light we have consulted with our geologist and requested that he emphasize to the Board his estimates of the proven gas reserves in the Province of Alberta which can be made deliverable as the market requires it. The deliverability of gas from each of the proven fields in Alberta then is a problem of producing the gas through the number of wells which will recover the maximum ultimate volume from that field. These wells will be drilled as markets are available. In turn, the distributor must provide for purchase of peak requirements of markets and the facilities for moving it to the market. It is respectfully submitted that if the Board becomes involved with the question of deliverability at the present time they should likewise be concerned with the pipeline capacities from the fields to the markets of the various utility systems in that to meet the peak requirements of the local service the capacity of that pipeline is as important as the per well delivery of the field. It is the opinion of our companies that the various oil companies and gas companies producing gas in



Robert R. Herring,
Ex. by Mr. S.B. Smith.

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Alberta - - and this is based upon pure economics - - will make deliverable by drilling the wells the amount of natural gas which they can sell and will do so on that basis which will produce the greatest amount of gas from that field over its years of productive life, subject only to the market available.

Based upon this assumption, we have consulted with our geologist and requested that he emphasize these points. In view of the instructions issued by the Board relative to the joint hearing on October 30th, notwithstanding the above view expressed, our companies will submit actual deliverability estimates on the various fields at that date if the Board desires. These estimates, however, will realize the recovery indicated by the submission of Mr. Galloway relative to natural gas reserves.

One point brought up by a member of the Commission yesterday concerned the deliverability of those proven reserves upon the supply of Alberta Province at the time that the Province reaches its peak requirements, that is, during this 50-year period. In that light our estimate of deliverability will be based upon the maximum amount of gas that can be delivered from these proven reserves as the demand of the local markets increases, and will not deal with the present deliverability of those various fields at this time. If I am wrong in that assumption, I would appreciate instruction from the Board in drawing up these deliverability statements of our companies. That seems to be the problem in trying to be

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helpful to this Board in arriving at its decision.

The request of our companies to export an approved volume of gas from Pincher Creek, or such other fields as the Board may approve, is supported by a letter from Gulf Oil Corporation and Canadian Gulf Oil Company to the Petroleum and Natural Gas Conservation Board, mentioned by Mr. Fish in his testimony yesterday, in which they state that the approved volume will be made deliverable and will be available for sale subject to satisfactory terms, limited only by the reserves of the field, if approved by the Alberta Conservation Board. The per well rate of delivery of this Pincher Creek gas should be governed by the producer of the field, namely Canadian Gulf Oil Company, in establishing the most economic rate of production for the reserve of their field in cooperation and under the guidance of this Conservation Board.

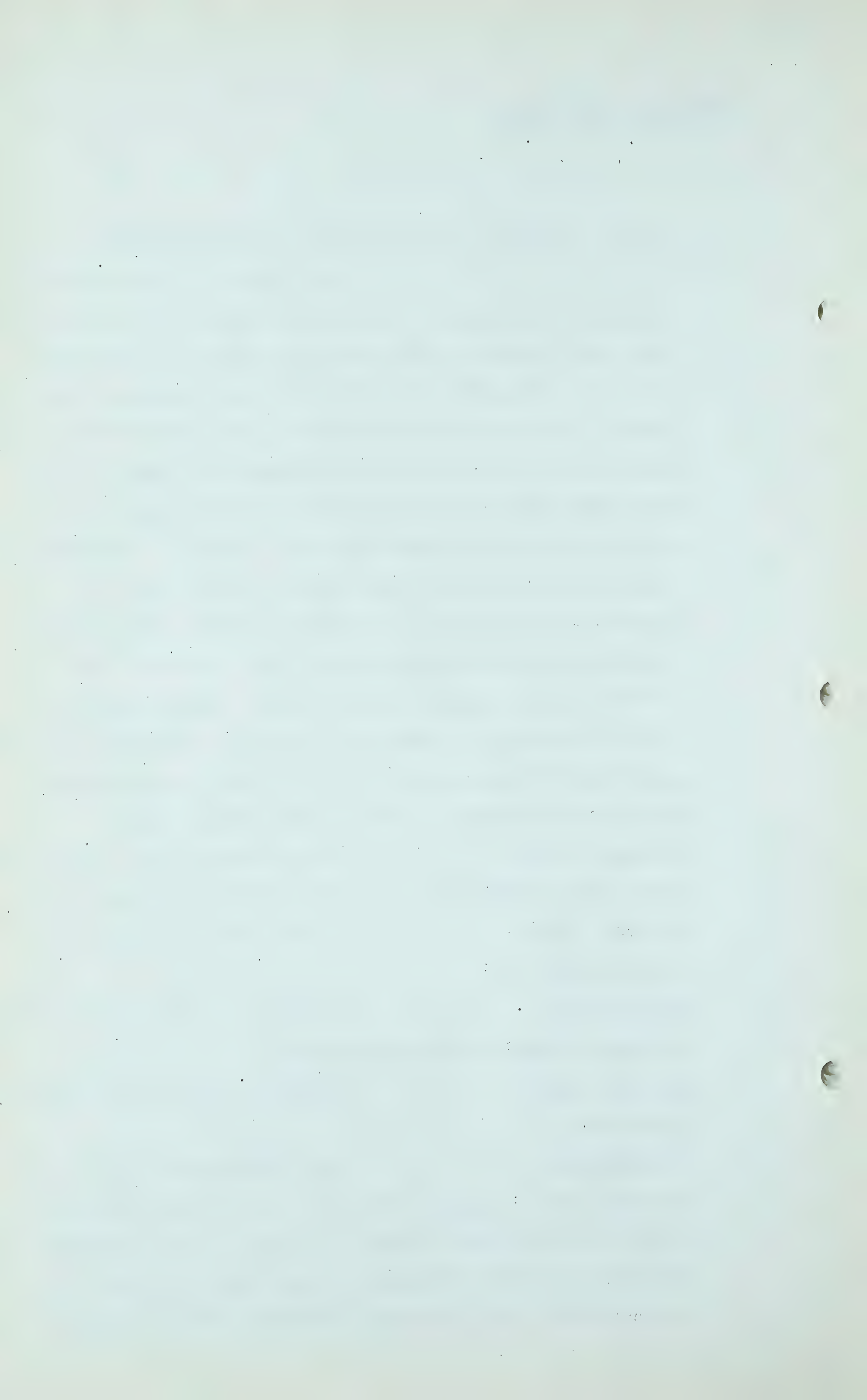
MR. C.E. SMITH: Do you remember the number of that exhibit? Was that put in in Westcoast or which one?

MR. S.B. SMITH: I can find it for you. It is not here.

MR. McDONALD: As far as I know, that letter has never been filed at any Hearing.

MR. S.B. SMITH: Well, we have not put Gulf's letter in.

THE WITNESS: The information which is available to our company was from the Vice President of Gulf Oil Corporation in Tulsa in which he stated communication was direct between his company and the Board of Conservation. We submit that statement only to support



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further our contention that that gas will be available for sale subject only to approval by the Board.

MR. S.B. SMITH: We have not got the letter, Mr. Smith. We assume that the Board has the letter.

MR. C.E. SMITH: Maybe you should be asking me the question I asked you.

Q MR. S.B. SMITH: Mr. Herring there was an indication in your evidence on Tuesday that you given study to the market requirements of Eastern Canada. Is that so?

A That is correct.

Q You and officials of your company have given study to that subject and you have prepared a brief, an estimate of the requirements of the Eastern Canada market. This is your estimate. This, sirs, has not been filed. Perhaps I should put this in now.

SUBMISSION RE REQUIREMENTS OF
EASTERN CANADA PUT IN AND
MARKED EXHIBIT 16.

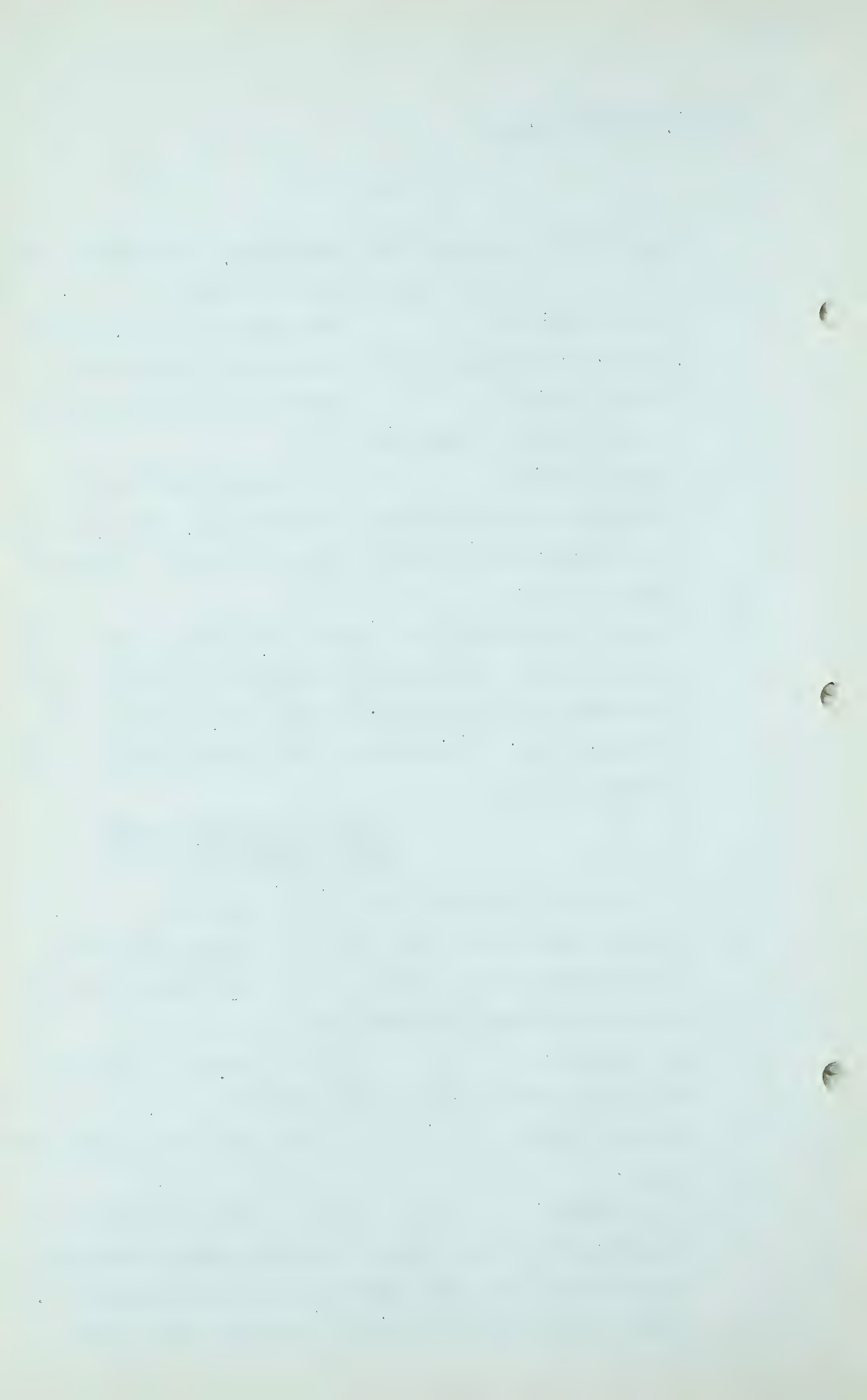
Q Do you want to go over that now, Mr. Herring?

A I submit this brief to the Board on a very brief basis. This information was compiled after consultation with the various utilities in Eastern Canada - -

MR. McDONALD: Just a moment. I have not been served with a copy of that exhibit.

MR. S.B. SMITH: I have two left, you can have mine.

THE WITNESS: - - in which the actual requirements of these various utilities was discussed with them directly, and this report includes their present demand on the basis of 1,000 Btu per cubic foot basis.



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The industrial demand as shown here was carried out by a representative in Eastern Canada through actual contact with various industrial concerns and establishing this industrial rate in various zones along the route. Naturally before going further into this matter we would go out and make a very detailed personal survey of each of those industries and confirm this information, but we felt it would be helpful to the Board to see the industrial demand for natural gas service in Eastern Canada in support of phase 2 of our representations before this Board.

As established by this report, the initial daily sales available to a pipeline transmission system from Windsor, Canada, to Montreal and on above Montreal to the paper and pulp mills along the river is 247 million cubic feet of gas per day.

Q MR. S.B. SMITH: Mr. Herring, evidence has been given that Pacific Northwest, the parent corporation, now of Prairie Pipe Lines Limited, has pending before the Federal Power Commission an application for a certificate of convenience and necessity in respect of the construction of a pipe line or pipe lines to the Pacific Northwest?

A That is correct.

Q And through the subsidiary of Pacific Northwest, that is, Prairie Pipe Lines, there is an application pending which we are now considering before this Board. What is the position of your company before this Board as to whether you wish a permit to export from this Board completely unlimited as to time, or what the request of your company

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is to this Board in relation to the period, if any, for the permit to export from Alberta?

- A A permit by this Board and by the Alberta Government to Prairie Pipe Lines and thusly to Prairie Transmission Lines Limited for the export of 100 million cubic feet of natural gas per day on a 20-year contract basis, which would call for a withdrawal of 750 or 730 billion cubic feet of gas over the period, has been discussed and is arranged for in this contract between Pacific Northwest and Prairie Pipe Lines which we submit are asking for, that is, Pacific Northwest Pipeline Corporation in appearing at this Hearing. That is our function in so appearing. Our arrangement with Prairie is that such export permit would be subject to Pacific Northwest Pipeline Corporation acquiring a certificate of public convenience and necessity before the Federal Power Commission by April 1st of next year.

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Q Yes?

A Therefore, if the Alberta Government and the Alberta Board should grant such a permit to the Prairie Transmission Lines Limited, such granting of such permit would be an obligation on their part for a period of six months. Pacific Northwest Pipe Line Corporation is at the present time pursuing, and will continue to pursue, its case before the Federal Power Commission in Washington, and will wind up its case as rapidly as possible in the near future.

We are committing ourselves before Prairie in meeting the requirements of this contract, and, thusly, before the Alberta Board for that period of six months.

At the end of that time we expect to have a Federal Power Commission certificate to serve the Pacific north west market, and we desire very strongly to have Alberta gas available to that system on this limited basis, if that is the Board's estimate of available export gas volume.

Q Anything else you would like to add, Mr. Herring?

A No, sir, on that subject I think not. I think we have made very clear to the Board our position in this matter. We desire this Alberta gas to be made available to Prairie for Pacific Northwest Pipe Lines Corporation. We are anxious to continue the pursuit of our case before Washington. We have made this contract with Prairie. We have appeared here. We are presenting financial testimony today to back up the feasibility of our project and to assure this Board that our project is economic and feasible, and that we have sufficient backing to support this contract, which is the basis of Prairie's



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application before this Alberta Board, and it is on this basis that this hearing was presented here today.

Q Would you answer my friends, Mr. Herring?

MR. FENERTY: No questions at this time.

CROSS-EXAMINATION BY MR. NOLAN:

Q There are a few questions I would like to direct to Mr. Herring, if I may, please, on matters that will be of assistance, not only to me, but to the Board. Mr. Herring, you are the President of what we call the Pacific Northwest Company?

A That is correct.

Q And as such you can discuss these matters with me with Presidential authority, may I say?

A I think so.

Q And we have been told, Mr. Herring, that the Pacific Northwest Company owns these two Prairie companies in their entirety?

A That is correct.

Q And are you an officer of either of the Prairie companies?

A I am.

Q What are your official positions?

A Vice President.

Q Of each of those two companies?

A Yes.

Q Mr. Herring, before we deal with general matters, there was something arising out of Exhibit 6 upon which I would like you to be good enough to tell me something.

A Which, may I ask, is Exhibit 6?

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Q Have you got it before you?

A Which, may I ask, is Exhibit 6?

Q Oh, Exhibit 6?

MR. C. E. SMITH: The Alberta Requirements.

Q MR. NOLAN: Exhibit 6 is the Requirements of the Province of Alberta. And leading up to what I was going to ask you, if you will be good enough to help me, was this fact, when evidence was given here by the Northwest Company, and you were not present, but perhaps you have had an opportunity of reading the transcripts, evidence was given that the total estimated market outside of the Province of Alberta was, in round figures, about 63 billion annually. I do not know whether you know that, or whether you read it?

A I am familiar with it.

Q You are familiar with it?

A Yes.

Q And what, Mr. Herring, is your total estimated annual market figure?

A As previously stated in testimony before this Board, our estimated daily sales average to the Pacific north west market in its entirety is 350 million cubic feet of natural gas daily.

Q Yes?

A Details of that market service will be presented at the hearing before the Washington Federal Power Commission.

Q Yes?

A Because that is the agency which has jurisdiction of granting the franchise to serve that market.



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Q What does that come to on an annual basis? I am not very interested in the figure myself, only in an approximate figure, can you give us an approximation?

A If you will just wait one moment I will multiply that figure out and arrive at it for you.

Q Because you must do the mathematics, I cannot.

A That is a figure of 127,750,000,000 cubic feet annually.

Q Which is approximately double the figure that was put in by the Northwest Company?

A Yes.

Q Now, that figure of the Northwest Company was compiled from the figures supplied by the distributing companies themselves, you know that, don't you?

A That is correct.

Q Now, there was offered in explanation yesterday by Mr. Mainwaring something to show why there has been an increase in the figures supplied by the B.C. Electric. You were here, Mr. Herring?

A That is correct.

Q And heard that explanation?

A That is correct.

Q But will you tell me, please, why you made this estimate upward with respect to the figures of the companies which were supplied here in the Northwest case?

A The basis for my estimation was made quite clear in my testimony on the first day. I would like to refer to that testimony to clarify the point in counsel's mind.

Q Yes?

A "The Petroleum and Natural Gas Conservation Board is

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fully aware of the requirements of the Pacific north west region through previous testimony."

Q Excuse me, what page is that?

A At page 3.

MR. C. E. SMITH: You have not got the same book,
I can see from here.

Q MR. NOLAN: Oh, you are reading from the
exhibit, are you?

A Yes, from the exhibit presented on the first day's testimony.

Q Is that Mr. Fish's statement?

A No, that is my statement.

MR. S. B. SMITH: Exhibit 4.

Q MR. NOLAN: Thank you, I have it.

A "Our estimates for requirements in both the initial and growth phases of the operations are somewhat higher than those previously submitted to the Board in that a detailed survey of the industrial requirements of these areas, during which 1100 questionnaires were mailed to industries in the Pacific Northwest, has been carried out by our company. The industrial increases, as shown by the above figures, are supported by actual statements of the various industrial concerns in their answers to these questionnaires. In addition to this revision of industrial requirements, the estimate of the load growth of the markets to be served has been revised to conform more closely with the actual experience gained by utilities which have converted from manufactured to natural gas along the natural gas transmission lines,

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which have been constructed in the United States in recent years. Any estimate on load growth and on new market areas is limited in its accuracy. However, it is the opinion of our company that the data now available, concerning these actual experienced conversions by cities in the same degree day zone and under similar conditions, is probably the best yardstick for the forecast of load growth in any new market to be served. Of course, in addition to these increases.."

and I suggest Counsel bear this point in mind,

"...the Board should realize the natural gas service which the Pacific Northwest Pipeline Corporation will furnish to the Rocky Mountain area, prior to reaching the market area which has previously been submitted in testimony to this Board."

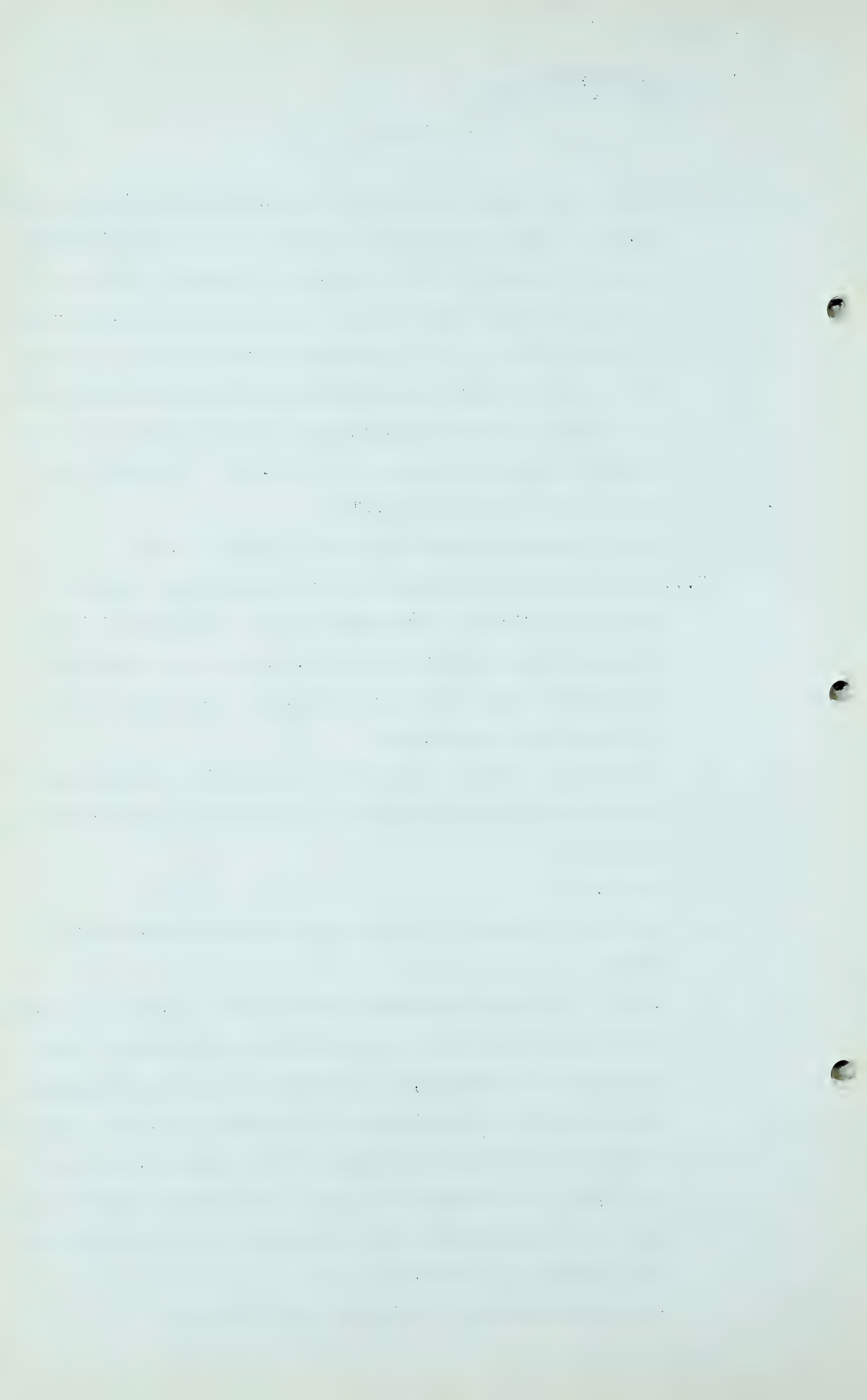
Q Well, what you are saying to me in effect is that you sent out 1100 questionnaires, and how many replies did you receive?

A Over 990.

Q And what volume of gas was represented by those 909 or 990?

A 990. The actual details behind these figures, Mr. Nolan, are figures that will be presented to the Federal Power Commission in Washington, at which you and your company have turned in intervention proceedings, and have chosen that arena for the disruption of our application, or, at least, the contesting of our application, and the details will be presented at that time and will be available to all parties at that time.

Q Unfortunately, this Board will not be there?



- A But this Board will have available the entire figures presented at that time and will have available the decision of the Federal Power Commission on this question, and that is the Board that has the jurisdiction over the market service we are discussing.
- Q In other words, what you are saying is that it is not this Board's business?
- A I am not stating that, Mr. Nolan, and I am suggesting you do not put words in my mouth. I am stating that we are anxious to be helpful to this Board.
- Q Why don't you be helpful and give us the information that I am asking you for?
- A Well, we will submit the statement that will bear out the feasibility of our project. The details of this proposal, as I have stated, will be made available at the time of the Federal Power Commission's hearing, and we do not intend to submit detailed figures for the consideration of other parties prior to the actual testimony before the Federal Power Commission in Washington.
- Q Yes. Now, you said something about the disrupting influence of my company on your application before the Federal Power Commission. When was that application filed?
- A Our application before the Federal Power Commission?
- Q Yes? Or perhaps you do not know?
- A I do not have the figure immediately available.
- Q Well, was it this year?
- A June 28th of this year.
- Q June 28th, 1950?
- A Yes.
- Q Had the Northwest Company an application before that

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Commission before your application?

A I am not familiar with the application of Northwest.

Q Did you ever hear that they had an application before the Federal Power Commission?

A I have read comments about that fact, to that effect in the newspaper. That is the limit of my knowledge.

Q And that was some two years before your application was filed?

A That is the implication of the newspaper article with which I am familiar.

Q And you are not suggesting, are you, that I am the only disrupter of your application before the Federal Power Commission?

A No.

Q Because there are eighteen others, aren't there?

A There are twenty-three others now.

Q Oh, twenty-three?

A The list is growing.

MR. S. B. SMITH: Are they disrupters to your company?

Q MR. NOLAN: Do you know who they are, Mr. Herring?

A Well, the great majority of them are coal operators and railroads in the United States, but there are various and sundry gas companies.

Q Perhaps you will remember some of them. There is the National Coal Association?

A Yes, that is correct.

Q The Utah Coal Operators' Association, is that right?

A That is correct.

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Q The Anthracite Institute?

A That is correct.

Q The Fuel Research Council, the Railway Labour Executives' Association?

A May I ask a question?

Q Yes?

A Do you know of any application before the Federal Power Commission in recent years in which those interveners have not been present on those applications?

Q Like Mr. Fenerty, the only advantage I have is that I do not have to answer.

MR.S.B. SMITH: Mr. Nolan refuses to answer on advice of Counsel.

Q MR.NOLAN: We have had applications before the Federal Power Commission in which these railway people have not intervened, or do you know?

A I do not know in detail.

Q Let us see who else there was? There are certain Western railroads, one, two, three, four, five, six, seven, right, nine. I won't read the names. You know of their opposition, do you?

A Yes, I do.

Q The Montana Coal Operators' Association?

A Yes.

Q The Public Service Commission of Washington?

A Yes.

Q The Colorado Inter-State Gas Company?

A Yes.

Q And the Mountain Fuel Supply Company?

A Yes.

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Q The Northwest Natural Gas Company, the Public Utility Commission of Oregon?

A Yes.

Q The Natural Gas Pipeline Company of America?

A Yes.

Q The Portland Gas & Coke?

A Yes.

Q The Westcoast Transmission Company Limited?

A Yes.

Q The Seattle Gas Company, the Colorado and New Mexico Coal Operators' Association?

A Yes.

Q And the Southern Wyoming Coal Operators' Association, and Trans-Northwest Gas Company Incorporated?

A Yes.

Q Now, I am sorry my list is not complete. There are four more?

A I will mail the others to you.

Q You do not remember them offhand?

A No, sir, I do not.

Q Do you know anything of the substance of these petitions which have been filed by these various companies?

A I have read each of them, and may I suggest that in the light of such intervention it would be very foolish for our Company to lay open the details of its presentation in Washington at this time. This Board is concerned with our successful pursuit of that application, and we have stated in this signed contract that we will pursue it, and I think the Board will recognize the very serious nature of our position in this matter.

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Q Yes? And I am going to be fair with you, I hope,
Mr. Herring?

A I appreciate that, Mr. Nolan.

Q The fact that there is an intervention does not necessarily
follow that there is an opposition?

A No, I agree.

Q In some cases there is opposition and some cases there is
not?

A Correct. For instance, the Public Service Commission of
Oregon is a very friendly intervention, and has been so
stated in the newspapers. With regard to the State of
Washington and the Seattle Gas Company, they are only
anxious to get gas service, and are anxious to present
those facts to the Federal Power Commission.

Q Yes, I understand that, but would you say that the Mountain
Fuel Supply Company was a friendly intervention?

A I should like to make a statement in relation to the Moun-
tain Fuel Supply Company of Salt Lake City. There are two
smelters, Mr. Nolan, and I submit this purely for your
information, and as a way of answering that question and
in trying to be helpful to you. Those two smelters re-
quire approximately 65 million cubic feet of gas every
day between themselves. They are anxious to get natural
gas service.

Q Who owns them?

MR. S. B. SMITH: Would you mind letting Mr. Herring
finish?

MR. NOLAN: If I cannot understand what he is
saying surely I can ask a question.

A The Kennecott Copper and American Mining & Smelting
Company.

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Q Yes?

A We have consulted with those people on their problem, and the problem we have arrived at in going past Salt Lake City, Mr. Nolan, is this fact, that there are two 18-inch lines running from the vicinity where our line goes through Wyoming down to the City of Salt Lake. Mountain Fuel Supply supplies the utility at Salt Lake. They have tried desperately to get additional gas in recent years. They thought they had it in the form of Church Buttes in Wyoming, but that field has not developed, because the reserves which they had hoped six years ago would be, or they felt they had three trillion of reserves in the Church Buttes in Wyoming, today they have established less than 700 million cubic feet. They have need of additional gas to go through the two service lines. There are at present negotiations going on whether we will go in directly and serve the additional needs of the City or whether Mountain Fuel will go in with the present existing service to serve the additional requirements of Salt Lake City. Our position is this, we are anxious to work together with the local utilities, and it will probably end up by us doing so in that case. Now, that is the nature of some of the interventions which you list there, but these details are of no consequence to this Board.

Q Yes?

A And I suggest that we restrict our testimony to matters that will be helpful to this Board.

Q Well, you may suggest as much as you like, it is the Board that will decide that?

A Surely.

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Q Now, these two smelters I am asking you about, Mr. Herring, are in the Mountain Fuel market area, are they not?

A That is correct.

Q And you show on your projected map a lateral into this Mountain Fuel Company market area?

A That is correct.

Q And those are the people who are intervening and opposing your application for a Certificate of Convenience and Necessity before the Federal Power Commission?

A Have you read their intervention, Mr. Nolan?

Q Yes. Would you like me to read it to you?

A If you would like to inform the Court to that extent.

Q I have not the whole of the petition but I have the first two paragraphs here.

MR. S. B. SMITH: They are the good paragraphs though.

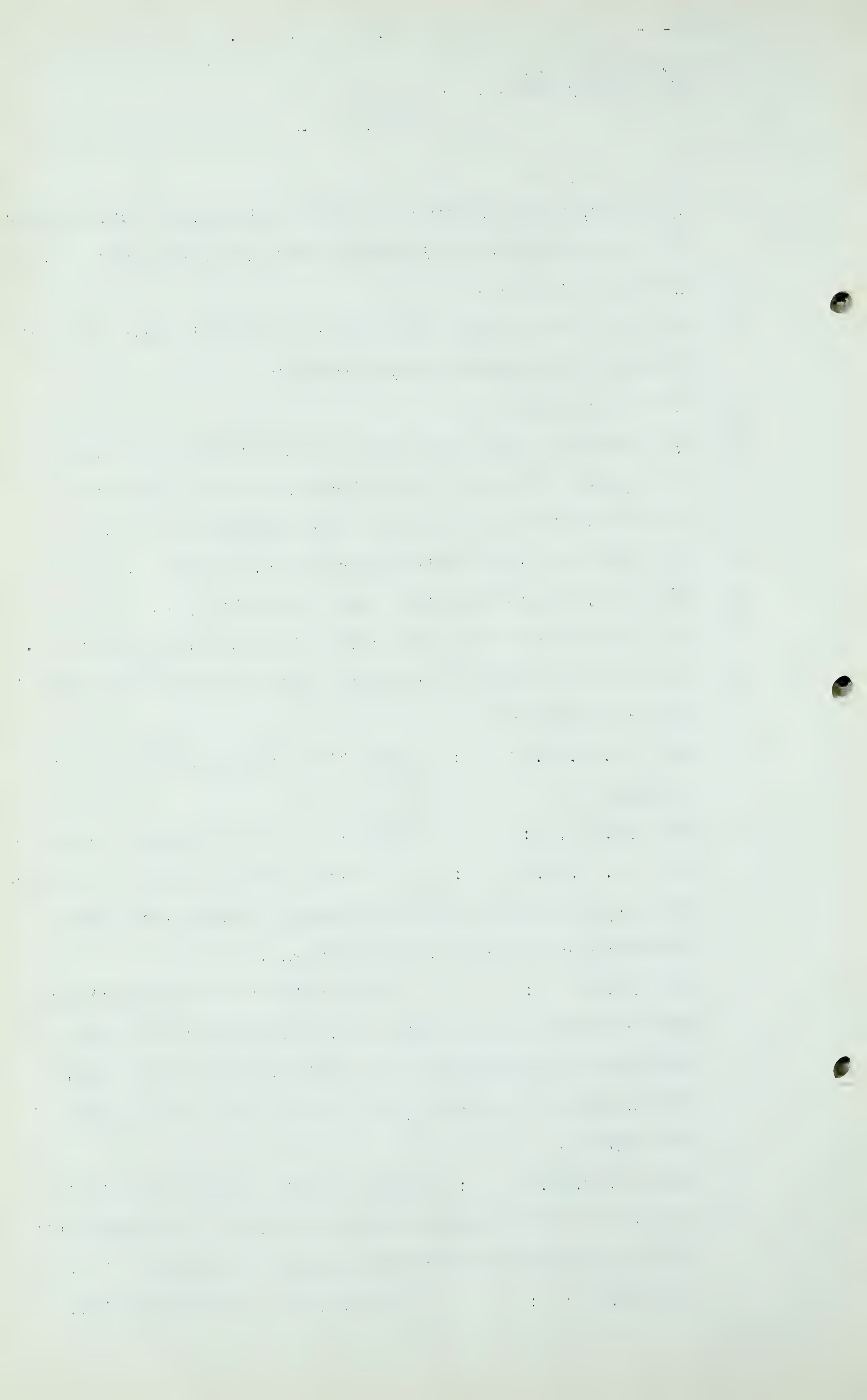
MR. NOLAN: You may not like them but I do.

MR. S. B. SMITH: If we are going to have a document why not let us have the whole document rather than some extracted portions of a document?

MR. NOLAN: I think there is something to be said for that and if I may, I am going to refer to the petition of the Mountain Fuel Supply Company and I undertake to secure a copy of that petition and file it with this Board.

MR. S. B. SMITH: What I would suggest is if we are going to use this petition, let us have the petition and not some portions extracted from the petition.

MR. NOLAN: That is what I am saying, that



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we will file a copy of the petition.

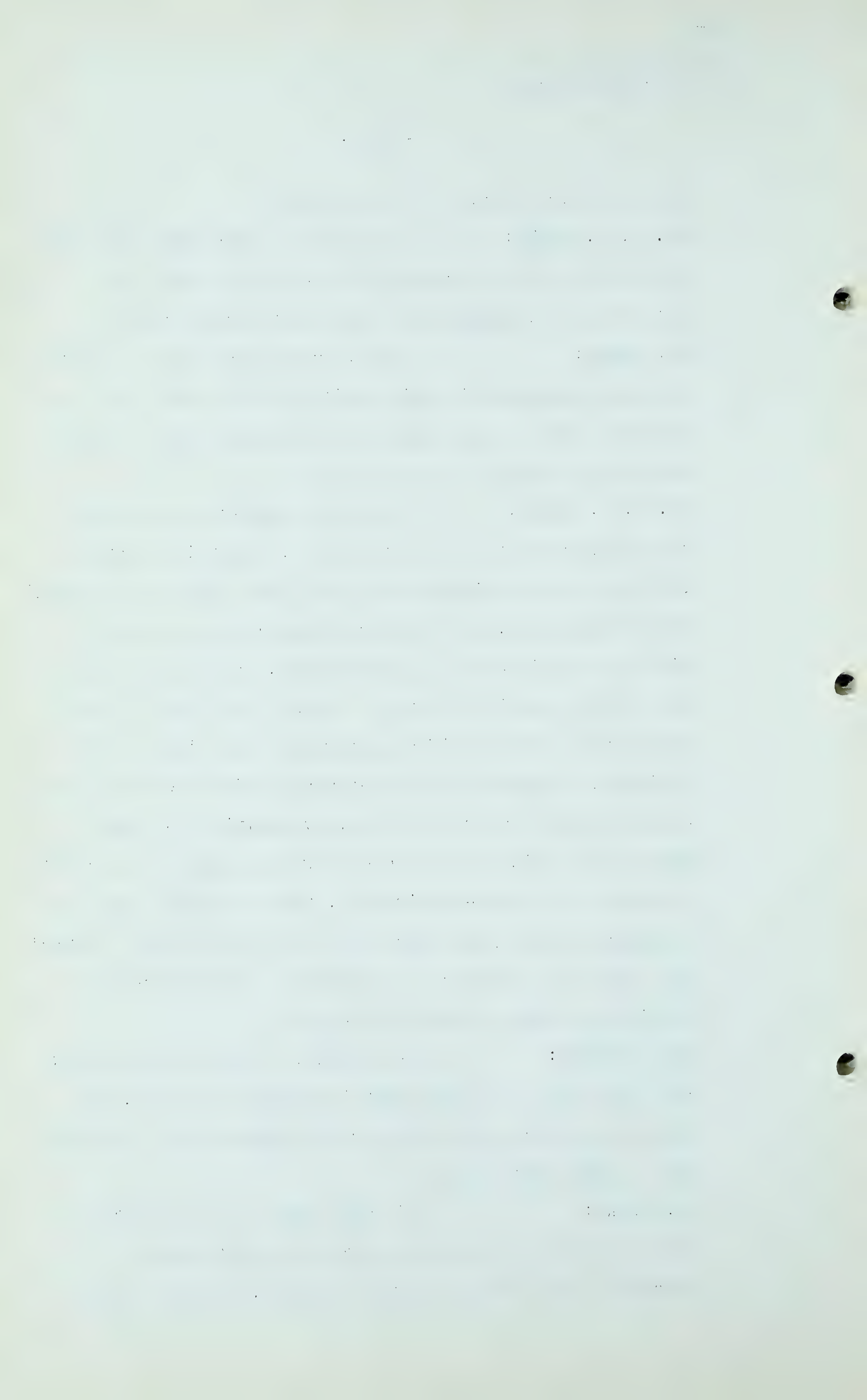
MR. S. B. SMITH: Then let us deal with that when we have the whole document and not on the basis of extracting a paragraph here and a paragraph there.

MR. NOLAN: Mr. Herring asked me if I knew what was contained in this petition and I said that I had excerpts from it, the first two paragraphs that I would be glad to read if he wanted me to.

MR. S. B. SMITH: I do not know what the object is in referring to this petition. If my friend intends to take the 23 petitions that are filed before the Federal Power Commission, 4 of them dealing with an entirely different subject to our application, and not related to any of the questions that are before this Board, we will waste days. That is if we are going to go into the 23 petitions in opposition to the application now before the Federal Power Commission. Now, my position is quite logical and quite proper that if we are going to deal with a document in cross-examination, then we should have the document and not those portions that the Northwest Natural Gas sees fit to extract and present. I am objecting to portions of that document being used.

THE CHAIRMAN: Mr. Nolan, I would like to know what this has to do with what is before the Board, that we have to discuss this matter of intervention. I would like to know your views.

MR. NOLAN: We have been told by Mr. Fish that so far as the project of Pacific Northwest is concerned, the Alberta portion of that, in other words,



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the line running from the gas fields of Alberta down into the United States and linking up with the line that is being built by Pacific Northwest from Texas, is an integral part of the whole undertaking. I fail to see how we are going to form any proper estimation of that undertaking until we know all these matters that affect it. In other words, it is important for us here to know something of the undertaking down there, and if that undertaking down there is meeting strenuous opposition and if the market which this company hopes to serve and has put in by way of intervention through the Mountain Fuel Company a petition in opposition, then at the same time this Board is entitled to know the status of that applicant down there. We are not trying to decide something that should be decided by the Federal Power Commission. That, of course, is beyond our jurisdiction, but I think we ought to know what is going on because this pipe line company that is here before this Board has a petition before the Federal Power Commission, and if they do not get their Certificate down there that would bring an end to the contract with Prairie. And alternatively, if Prairie does not get a permit from your Board to export gas then the contract is cancelled on 30 days' notice. It is all tied in. I am not trying to prolong these proceedings, I can assure you.

Q THE CHAIRMAN: Mr. Herring, are you agreeable if Mr. Nolan should read an extract from that petition?

A I am not from this point of view, Mr. Chairman, that I think the intervention states that that raises in the

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application of Pacific Northwest before the F.P.C. certain difficulties that might be presented and they also state at the end that until they know the details of the application they are not in a position to state definitely that it works to their detriment.

MR. C. E. SMITH: Might I suggest that we bring an end to this discussion? Mr. Herring asked for that petition and I think Mr. Nolan is entitled to cross-examine him on it.

MR. S. B. SMITH: But he did not ask for an expurgated edition of the petition. He asked for the whole document. I object to a portion of the document being used. Might I say in addition, with every respect to my friend Mr. Nolan, how illogical is the position that he takes. He stated a few moments ago that this subject was within the jurisdiction of the Federal Power Commission and therefore not in the arena with which we are concerned here. Later, in the next breath, he says let us look into that other arena and find out what is going on there. If it lies in that jurisdiction, why don't we leave it in that jurisdiction.

THE CHAIRMAN: Will you file a copy of that intervention with the Board when you get a copy?

MR. NOLAN: Yes, I can.

THE CHAIRMAN: And I presume Mr. Herring will be here after we adjourn, and maybe a copy can be obtained at the noon hour and Mr. Nolan could examine him on it this afternoon.

MR. NOLAN: I will not have the petition

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here during this hearing, sir.

THE CHAIRMAN: I mean the copy, the one you
are reading from?

MR. NOLAN: I have only got excerpts and
my friend objects to the excerpts. I would produce
a certified copy of the petition in its entirety but
I cannot do that today.

THE CHAIRMAN: Is it necessary in this cross-
examination? I think you asked in the first place, Mr.
Herring, if Mr. Nolan had read this. Is that right?
Or could the reporter go back and tell us how it all
started?

A That is correct.

MR. C. E. SMITH: Is this so serious to waste
all this time?

MR. NOLAN: No, and I am quite willing to
drop the matter now.

MR. S. B. SMITH: And so am I.

MR. NOLAN: I said to the Board that I will
file a copy of the petition and I will, in its entirety.
Not excerpts but the whole.

MR. S. B. SMITH: That is fine. You took twenty
minutes to tell them that.

MR. NOLAN: And you took nineteen of them.

MR. S. B. SMITH: That other minute was a long
minute.

Q MR. NOLAN: Mr. Herring, to get back
to another topic. Do you remember the natural gas
investigation undertaken by the Federal Power Commission

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in 1945 and 1946?

A Relative to the natural gas reserves in the United States?

Q Yes? I am sure you do remember it.

A I am somewhat familiar with it, but not in detail.

Q May I read a paragraph from the beginning of that report so that the Board here will know what this investigation was about. My only reason for doing this is that I want to ask one or two questions that arise out of your testimony and ask you to consider what you said there in the light of what is said here. I wanted to make it quite clear that you knew what I was talking about when I talked about the Natural Gas Investigation, docket No. G580. They say in the report, sir, "Recognizing the existence of problems relating to the production, transportation and utilization of this natural resource, which required broad and careful consideration, the Commission by its Order of September 22nd, 1944 initiated the Natural Gas Investigation in Docket No. G-580, to consider such matters as 'The extent and probable life of natural gas reserves, present and prospective measures for preventing waste and prolonging the life of such reserves; the present and probable future utilization of natural gas for domestic, commercial and industrial purposes; the extent, character and results of the competition of natural gas with other fuels; and such related matters as may be helpful in the administration of the Natural Gas Act or in determining what additional legislation, if any, should be recommended.' " I am sorry that I had to read so much. Now I am going to ask Mr. Herring if he

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would be good enough to look at page - -

MR. S. B. SMITH: May I look at it for a moment
to see what it is?

MR. NOLAN: Yes.

MR. S. B. SMITH: Thank you.

MR. NOLAN: You may not understand it.

MR. S. B. SMITH: Do you understand it?

MR. NOLAN: No.

MR. S. B. SMITH: What page are you reading ffrom?

MR. NOLAN: Pages 398 and 399.

MR. S. B. SMITH: That is not what you read.

MR. NOLAN: Oh, no, I read from page 1.

MR. S. B. SMITH: This rather sounds, Mr. Nolan,
as though it was a sort of Dinning Commission inquiry
into the gas resources of the United States.

MR. NOLAN: That is right.

MR. S. B. SMITH: That is quite a good sized
volume, approximately 500 pages with many schedules. I
have never seen it before. We are getting into something
somewhat afar from this hearing.

MR. NOLAN: Perhaps the witness has seen it
before. That is the important thing.

A What page do you refer to?

Q I was asking you to look at pages 398 and 399, just those
tables, and then if you would please look with me at
Exhibit No. 5 at the foot of Page 3 where you have
appended a note. Your exhibit, Mr. Herring, No. 5 at the
foot of page 3. The note reads as follows: "Based upon
the degree day area of this market and the general

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"average of 4.5 people per meter experienced both in Alberta and the United States market areas in this temperature zone." I was going to ask you, Mr. Herring, why you took the figure of 4.5 persons per meter for your computation?

A Contrary to the presentation as you presented it here, is that what you mean?

Q Well I was asking the general question first, why did you take 4.5 and then I was going to ask you to tell me something about these tables?

A If I recall correctly, I deviated from my prepared text on that matter the day before yesterday and presented the statement that our company had made a thorough study.

Q Excuse me?

A That our company had made a thorough study of the various conversions that had taken place in recent years and that is the basis for natural gas conversion growth in our estimation. I previously stated in testimony the period of the first pipe lines constructed, the major transmission companies in the United States, was followed very closely by the depression years. The rapid growth of these converting utilities was naturally retarded by the effect of those depression years. Following that, World War 2 also affected very seriously this growth. But on the basis of the development that has taken place in recent years - and this is in answer to your question, Mr. Nolan, - -

Q Please go on?

A - - up until 1950, between 1946 and 1950, those utilities which have had natural gas available for full growth

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with the degree days zone area referred to, have followed 4.5 people per meter and an average of 200,000 cubic feet of natural gas.

Q Why did you take the Province of Alberta?

A To show the conservative nature of our figures concerning British Columbia.

Q Would you not say there is a vast difference in the degree days between Alberta and British Columbia?

A I would not say a vast difference. There is a difference that justifies the conservative nature of our report.

Q You talk about the American market in this temperature zone and perhaps if you will be good enough to look at the tables on pages 398 and 399, you might tell me what it is for Montana. Perhaps you would explain to the Board what that table is, would you, Mr. Herring?

A The heading for this table is Artificial Gas Customers, per Customer Consumption, All Kinds of Gas Service by State, 1946.

Q It is divided into regions and States, is it not?

A That is correct.

Q And if you will look, please, at Montana. Will you tell me the number of persons per meter? That is what it is, persons per meter?

A 9 persons per meter in Montana.

Q Yes, and in Minnesota. 9.7, is it not?

A I have not located it. 9.7.

Q And North Dakota, and that is the only one I will trouble you with?

A 25.3.

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Q And in spite of those figures which are official, are they not?

A I would like to elaborate on that last figure you just requested, to clarify this point.

Q Would you tell me first are those official figures?

A They are.

Q Yes?

A For 1946. At that time in North Dakota there were 25 persons per meter. Natural supplied 6.5 thousands of customers. Manufactured gas supplied 14.1 thousands and customers of liquified petroleum supplied .6 thousand of customers for a total of 21 thousands of customers. Any place that has that much manufactured gas sold is not going to have the saturation of persons per meter - yes, sir, that is right, persons per meter, as you would with natural gas sold at prices of natural gas.

Q That seems to have met with the approval of your colleagues and perhaps you will tell me if you have any explanation of the Montana situation?

A Montana at the present time is attempting to secure natural gas from Alberta to supplement the requirements of Montana. I would not consider the present Montana service, which is inadequate, it will be stated inadequate by any utility in Montana, as a fair indication of the requirement.

Q The fact, however, is that your figure of 4.5 is very different from the figure for Montana or Minnesota?

A I agree and I think I have given the reasons why they are.

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Q You mentioned a moment ago the question of volume. That, as I understand it, Mr. Herring, is the amount of gas for domestic use which passes through the meter in a year in thousands of cubic feet?

A And commercial.

Q Domestic and commercial. In the transcript, if my memory serves me, is this correct, that you said you took a figure of 200 what? MCF's per meter per year?

A 200,000 cubic feet.

Q Per meter per year?

A Per meter per year. In that table you have before you there is a compilation showing the amount of gas that goes through the meter per year.

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A In North Dakota the annual average consumption per customer, 194,000 cubic feet per year on manufactured, 20,000 cubic feet per year on liquified petroleum gases, or propane and butane 33,000 cubic feet per year.

Q The figure for natural was 194, wasn't it?

A 194.

Q And there is not in that column in any State in the Union the figure 200?

A You will notice that throughout the greater - -

Q Is there, Mr. Herring, or is there not, just tell me that?

A You will notice throughout this column that there is - -

Q Mr. Herring, I am going to ask for the intervention of the Board if you do not do what I want you to do.

A Well, there is not.

MR. C.E. SMITH: Okay, carry on.

Q MR. NOLAN: All right, that is all I want to know. I think there are only one or two other matters, Mr. Herring.

MR. S.B. SMITH: Are you finished with the book?

MR. NOLAN: Yes.

Q Mr. Herring, will you look at page 4 of Exhibit 4, your Exhibit 4, please?

A May I ask which that is?

Q Oh, that is the general statement that you made, your earlier statement, your first statement.

A On page 4?

Q Yes. Now, you were speaking in that first paragraph there of underground storage facilities, aren't you?

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A That is correct.

Q And you say that it is planned to use the facilities of Pacific Northwest Pipeline Corporation at a load factor to exceed 85% through the use of interruptible customers and an underground storage facility in the Rattle Snake Hills area of the Columbia River basin near Hanford, Washington. There are wells there, are there, in this Rattle Snake Field area?

A Would you like me to describe that area?

Q Well, whose property are those wells on, please?

A There are 15 such wells at the present time owned by two individuals. During the course of a 6-year period two billion cubic feet of gas was conserved in the area, which is 700 feet deep and has a clay covering of 70 feet, which makes it ideal storage. Based on information we have, at a pressure of less than $1\frac{1}{2}$ pounds if 2 billion cubic feet of gas be produced over that period of time with that pressure behind it and yet with this clay substance on top, and I do not intend to represent myself as an expert in these matters at all but have studied what the experts have stated about such fields, there is a vast storage area available. But I state in my presentation, if you will recall, subject to actual tests being carried out on this underground storage, the pipe line should exceed this load factor. I stated further along:

"An investigation has been carried out on this field as thoroughly as possible without actual tests, and through the experience of the Fish Engineering Corporation in establishing such fields in the

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"Northeastern United States, we are very optimistic about the possibilities of this underground storage."

Q What you are saying is, there has been no actual test made on the feasibility of underground storage in these wells?

A Such a test would be very expensive and we have been very cautious about the amount of money we have spent on the project just now.

Q And if there was a wellhead pressure of 5 pounds underground storage would prove very difficult, would it not?

A Would you repeat that question?

Q If this initial wellhead pressure was 5 pounds per square inch it would be very doubtful whether it could be used for underground storage?

A On the original production?

Q I mean, is it doubtful or isn't it?

A It is not, in my mind, but I do not represent myself as an expert and I suggest the testimony before the Board should be confined to an expert on such matters.

Q Well, have we one coming up?

A We will arrange for one on October 30th if the Board so desires.

Q All right. Did I ask you whose property these wells were on in the Rattle Snake Hills area?

A Yes, sir, and I did not reveal the names.

Q Well, is that a secret? I mean, you do not want to?

A It is available on any record in the County of that area if counsel would like to go down and investigate that matter.

Q That is a very impertinent remark, Mr. Herring.

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A Well, I regret that I made it, Mr. Nolan.

Q You are a witness, remember.

A Right.

Q You know whether it is on the property of the Atomic Energy Commission?

A A portion of the field is.

Q How many of the wells?

A I do not recall exactly, Mr. Nolan. Investigation has been made by engineers of our company other than myself and I am not completely familiar with that field.

Q Now, reverting to the matter we discussed at the outset and only for one moment, and that was the question of your having increased the estimates over and above the figures supplied to the companies in the Pacific Northwest. Why didn't you increase the estimates on the figures supplied by the two gas companies in Alberta?

A The only answer to that question that I can make very clear, I think, Mr. Nolan, is this, that the per metre consumption at the present time in Alberta ranges between 350,000 cubic feet per meter per year, domestic and commercial heating requirements, whereas that carried on in this report that our company has made throughout this area of the United States that I referred to shows an average of 200,000, and is shown in your testimony to be somewhat less than that in 1946. In that light I felt that the local companies have been optimistic possibly in their estimates but nonetheless they are in a position to know exactly what their demands are, whereas on the West Coast, in my market analyses, the increases I have made in these market

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analyses were based upon this industrial survey which we carried out and which clearly outlines the reason for the increase, and in the case of Vancouver which was supported by testimony of the Vice President and Assistant to the President of the British Columbia Electric yesterday.

Q The reason I asked you is because in Exhibit 6, at page 1, you say, referring to the figures that were given to you by the Gas companies here in Alberta and upon which you are placing reliance, you say:

"The information previously furnished to the Board by the Canadian Western Natural Gas Company Limited and Northwestern Utilities Limited, the two largest utilities in Alberta, has been used to the fullest, and Statement C of their submission is herewith submitted in its entirety. The reason for this inclusion is that this company, both financially and morally, involved in the reserve estimations, should present the most accurate analysis of the actual requirements of the Province."

Now, Mr. Fish said yesterday that the people here in these companies know more about their business than any one else could guess about it and that he was content to take the company's figures, and I would like you to tell me once more why you did not take the company's figures which were presented to you in the Pacific Northwest and we will exclude Vancouver from the discussion.

A In the other case in the United States and the Pacific Northwest's markets they are manufactured gas utilities at the present time, they are very limited in both their

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distribution system and in the output of natural gas, their franchise systems did not reach out into various industrial concerns in the outlying areas of those cities. In that light they are projected programs, as I have studied them and I have found agreement to include actual extension of these various systems to include those areas. We intend to assist these local utilities and give immediate service to these various industries, and I think I am perfectly justified in accepting the statements of those industries that they will accept natural gas service in the fall of 1952 provided conditions are met, and I have increased my market figures on that basis.

Q You know, of course, Mr. Herring, that this company had the assistance of Ebasco Services and Ford, Bacon & Davis in making up their estimates?

A I do.

Q There was mention made in one of your exhibits about Arco. Have you any information as to about how much gas, if any, would be used by Arco?

A Slightly less than 1 million cubic feet per day. Slightly more, rather.

Q Slightly more?

A Yes. The line up there, I might comment on that, Mr. Nolan, will be somewhat uneconomical unless considered with our whole project. It is of a vital nature to both the Atomic Energy facilities.

Q Now, just a few general questions on the general project of your company. Do I understand that you undertake to purchase 100 million cubic feet of Alberta gas?

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A If the Alberta Board decides that that surplus is available and make an export permit to Prairie and the Board of Transport Commissioners in Ottawa approve the construction of a pipe line by Prairie, Pacific Northwest is ready to take that volume of gas and dedicate that volume to the use of British Columbia.

Q Now, if the requirements of British Columbia are less than 100 million, what happens then?

A Pacific Northwest agrees to use that volume in its other markets in the Pacific Northwest. To be economical we require that volume of gas.

Q Well, are we quite clear you will take 100 million?

A Yes, we have so stated in our contract.

Q Well, all right then, I think we understand one another. Now, you are prepared also, Mr. Herring, to take Alberta gas to fill your full market requirements in the Pacific Northwest?

A That volume, yes.

Q And that is how many million cubic feet a day?

A In the actual area described in the Pacific Northwest markets, approximately 260 million cubic feet of gas per day.

Q Now, if there were 250 million cubic feet of Alberta gas available per day, you would take it?

A That is correct.

THE CHAIRMAN:

I think we might possibly

recess.

MR. NOLAN:

I am sorry for being so

long. I will try to shorten it up, sir, after the adjournment.

(The Hearing then took a short adjournment.)

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Q MR. NOLAN: Mr. Herring, there are only one or two other matters.

A All right, sir.

Q If you will, please. Will your company, Pacific Northwest, obligate itself to buy as much Alberta gas as is available to replace the market gas in the Pacific Northwest market?

A We have so stated in our application, Mr. Nolan, subject to the approval of Governmental bodies in Alberta and subject to the approval of the Federal Power Commission. Now, we have placed limitations on that volume of gas that can go to specific markets. We would still be limited in such an obligation only to this extent, as the markets are available to us we will take these volumes of gas and at the present time markets are available to us to substantiate this program which we have outlined.

Q And you will buy 100 million now and as much more as you can in future?

A Yes.

Q Subject always to Governmental authority being granted here and there.

A Here and there.

Q Now, assume with me for a moment, Mr. Herring, that we built the line and where does it originate, in Texas?

A That is right.

Q Is there a place that I can name?

A No, sir, not until the F.P.C. Hearing.

Q Could I say South Texas?

A That is perfectly all right.

Q South Texas it originates, and it proceeds up through

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Oklahoma, then in a northwesterly direction into the Pacific Northwest?

A Yes.

Q Then the line from Southern Alberta goes down and joins up with the main transmission line. Can you name a point?

A The actual juncture of the two lines is shown by the map which has been submitted at near the Atomic facilities at Hanford.

Q Just say at Hanford, which is close enough for what I am going to ask you. Now, supposing, Mr. Herring, that there is enough gas available in Alberta to supply all your market requirements in the Pacific Northwest, assume that with me?

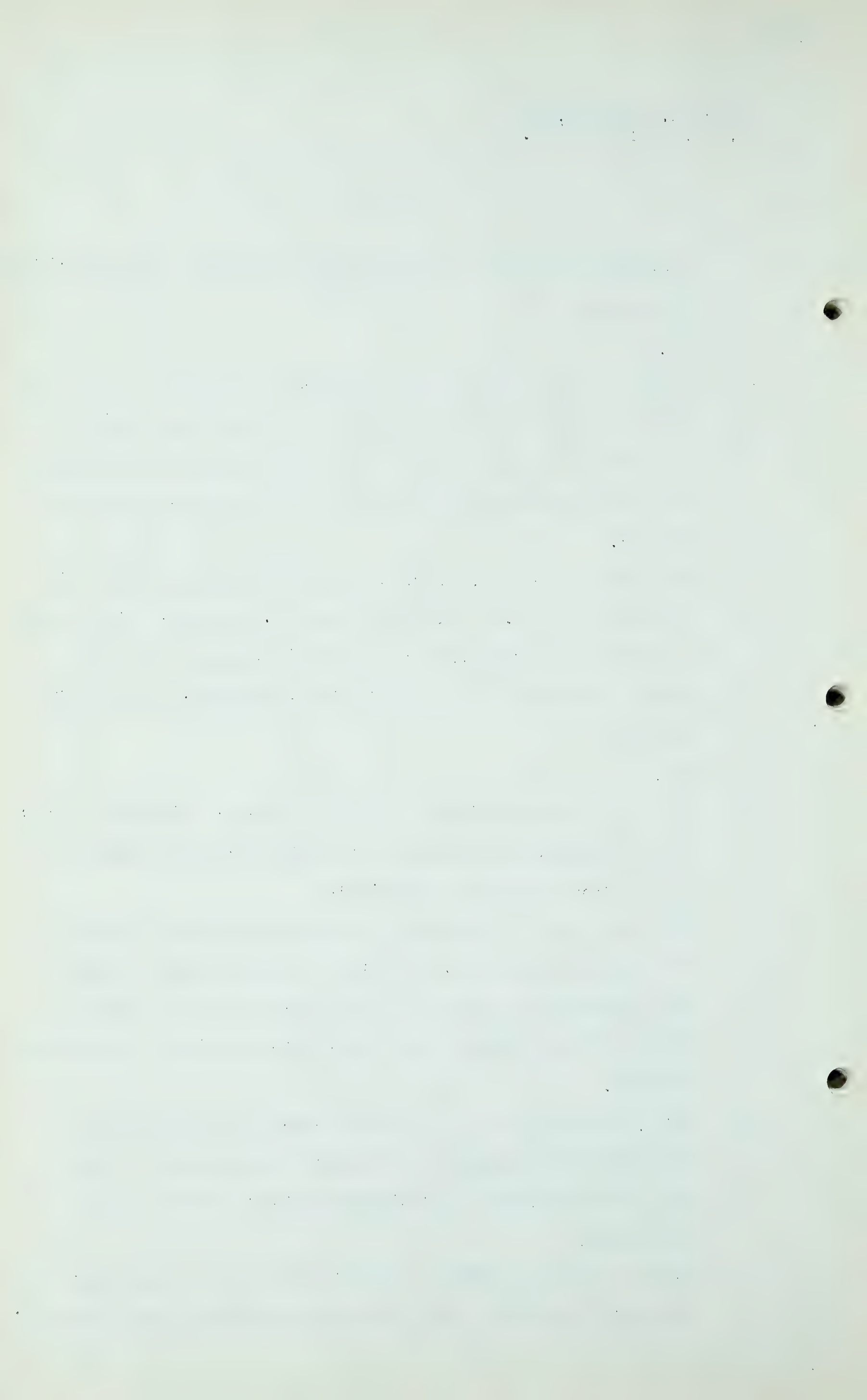
A Yes.

Q That it is made available to your company, lines are built, the Governmental authorities are granted, what happens to a line from Oklahoma to Hanford?

A That line will be servicing those markets which operate from those facilities. The cost of moving gas through that particular segment of the line, due to the limited volume moving through that line, would naturally be greatly reduced.

Q Well, let me put it to you this way, is it financially possible to get money to undertake this project if that line from Oklahoma to Hanford is only to supply local consumers?

A Later in this testimony, provided the time is allotted, financial testimony will be given on behalf of our company.



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I suggest that there would be much more authority in an answer from one of two witnesses that will be available at that time.

Q That interests me, Mr. Herring. There is to be a financial witness as to the American portion of the undertaking?

A The entire project.

Q And Prairie too?

A Yes.

Q Well then, in the event of all these things happening that I suggested to you, that line would be doing practically nothing from Texas to Hanford?

A I disagree. The service to the market in areas in that segment of line will exceed 120 million cubic feet of gas per day.

Q And you are thinking - -

A That is a very definite contribution to the market that we are servicing because this volume would increase above - - that is, the export volume from Alberta would increase above the immediate requirements of the Pacific Northwest. We intend to go immediately into phase 2 making such gas available to Eastern Canada subject to the approval of the various regulating bodies.

Q But that continuation is from Oklahoma to go to Windsor, Ontario?

A That is correct.

Q I am thinking more particularly about from that junction in Oklahoma to Hanford. Does the Salt Lake area come into that particular part of the line?

A It certainly does.

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Q And you are counting on that, are you?

A Right.

Q As a potential market for the gas in that section of the line?

A That applies to the Snake River Valley of Idaho. That has a tremendous possibility, and areas in Wyoming and also the Denver people.

Q Putting it another way, Mr. Herring, if you got no gas from Alberta, would you go on with building the line from Texas to the Northwest Pacific in any event?

A That is the nature of our application. We would like to clarify that point with you, Mr. Nolan, if I may. We are very anxious to secure the gas that Prairie is applying for because naturally it would place us and our company in a position of beginning to participate in what we feel will be a tremendous growth in Alberta, and as others have suggested, it would place us on the ground floor here in Alberta and in the tremendous reserves that probably will be made available to an exporting line in the future, and we are looking towards that possible growth of Alberta and anxiously asking for this volume of export gas which we hope will fix the surplus volume that will be available.

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Q But if you do not get the gas you are going to build anyway?

A That is correct.

Q One other matter, Mr. Herring, what price do you pay for gas at Texas?

A The price in Texas at the present time ranges between 8 and $10\frac{1}{2}$ cents per thousand cubic feet of gas.

Q Is that scrubbed gas?

A Yes, that is scrubbed gas.

Q And/what price do you intend to sell that gas in the Pacific Northwest?

A Until we determine whether any gas will be available from Alberta or not and determine the exact situation of our problem, then we will present the figures that we arrive at at that time to the Federal Power Commission, who must, after all, approve any price that is established for the market area. We are not free to discuss that price structure.

Q Well, do you intend to discuss it with the Board of Transport Commissioners for Canada?

A We will immediately pursue our case before the Federal Power Commission. If they have approved a price at that time and have granted us a certificate, we will be in a position to tell what the price will be, but the Federal Power Commission has full authority to establish that price. In connection with that, the right to serve the Pacific Northwest, that is regulated to 6% earnings by the Federal Power Commission on the basis of its invested capital. It is a matter of pure economics, the price you arrive at. When we have established whether we will get gas from the Alberta market or not we will be able to arrive at the price. I feel

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that the testimony to be given later today will substantiate that with regard to our project.

Q But the Federal Power Commission has nothing to do with the price at which your Company will sell in Vancouver or in British Columbia?

A No, sir, but Mr. Fish has stated in previous testimony that we will supply the entire market at the same price.

Q Does that mean, Mr. Herring, at each point, Spokane, Portland, Seattle and Vancouver? Does that mean that the price will be the same?

A The domestic price will be the same.

Q The domestic price will be the same?

A That is correct.

Q Will it be the same in Victoria?

A The Victoria line must be amortized. Negotiations are being carried on between our company and the B.C. Electric, and we hope they will arrive at a definite figure. That, too, must be economic.

Q Will the price of industrial gas be the same?

A The price of competitive fuels inland on the Coast are somewhat higher than on the Coast. We are discussing at the present time the possibility of a somewhat higher price inland to arrive at a cheaper domestic price for the Pacific Northwest. Any type of negotiations to that effect, or the presentation of them must go to the Federal Power Commission, and must have the full approval of the Federal Power Commission, and that submission will be made by us at the time of the Hearing.

Q I see. I know what you mean. For example, the competitive price in Spokane would be different than what you would

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pay on the seaboard?

Q That is correct.

Q Because you have the freight haul of the fuel oil from the sea coast to Spokane?

A That is correct.

Q I see.

A I might make one additional comment, Mr. Nolan. We are anxious in establishing public necessity and convenience for such a line to arrive at the very cheapest price for domestic gas that can be brought to the market. It is the function of the Federal Power Commission, and it is their first objective, and it is your industrial load, primarily, assists the first year, and the critical industry continues with the pipe line operation.

Q I think that is all, thank you, Mr. Herring.

A Yes, sir, Mr. Nolan.

.....

CROSS-EXAMINATION BY MR. FENERTY:

Q There is a point I would like to ask on after all, Mr. Herring. I am glad to see that you seem quite sure about the evidence that you intend to present and do not intend to present to the various Commissions. And I refer to the Federal Power Commission evidence at the moment, and it is merely by way of comparison, and I understand from you that you feel in connection with American gas for American markets, that that is a Federal Power Commission matter, and you have given us in some detail the kind of evidence you are going to present. Now, I have been wondering, I am trying to get at whether or not in con-

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nection with a similar matter which is within the jurisdiction of this Board, namely Canadian gas to Canadian markets, B.C., to which you say your 100,000 is dedicated, I want to know whether you do not intend to present to this Board evidence in similar detail as that outlined with regard to the Federal Power requirements, the prices, and the costs, and how you are going to amortize and so on. I could not get that from Mr. Fish. I thought, perhaps, that you were very explicit about things, and I wonder if you could be equally explicit in that?

A I suggest, Mr. Fenerty, that the financial testimony which will be presented this afternoon will support the economics of our project. Mr. Fish stated yesterday he was prepared to pay the going price in Alberta. In fact, our estimates, both in Texas and up here, are based upon the going price of gas in Alberta and in Texas. And as Mr. Fish stated, we are prepared to pay that price. Any tremendous increase above that price would interrupt the economics of our project, but we do not foresee any tremendous increase.

Q Are you going to present a statement with similar make-up with reference to Canadian gas to Canadian markets as those that you are required to present to the Federal Power Commission with reference to American gas to the American markets, that is what I want?

A I gather from that question, Mr. Fenerty, that you would like to know in detail - what would you like to know there?

Q Just what the Federal Power Commission likes to know about American gas?

MR. S. B. SMITH: Of course, perhaps my learned

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friend should point out that there are wide differences between the jurisdiction of this Board and the jurisdiction of the Federal Power Commission. It is an entirely different matter.

MR. FENERTY: I just want to know if he is going to do that, if it is going to be given, and I won't compel anyone?

A Well, sir, I think our statements are reasonable.

Q I was not discussing the reasonableness in reference to Canadian gas to Canadian markets, and I was wondering if you were going to give with reference to Canadian gas to Canadian markets the same evidence that you are required to present with regard to American gas to American markets, that is all?

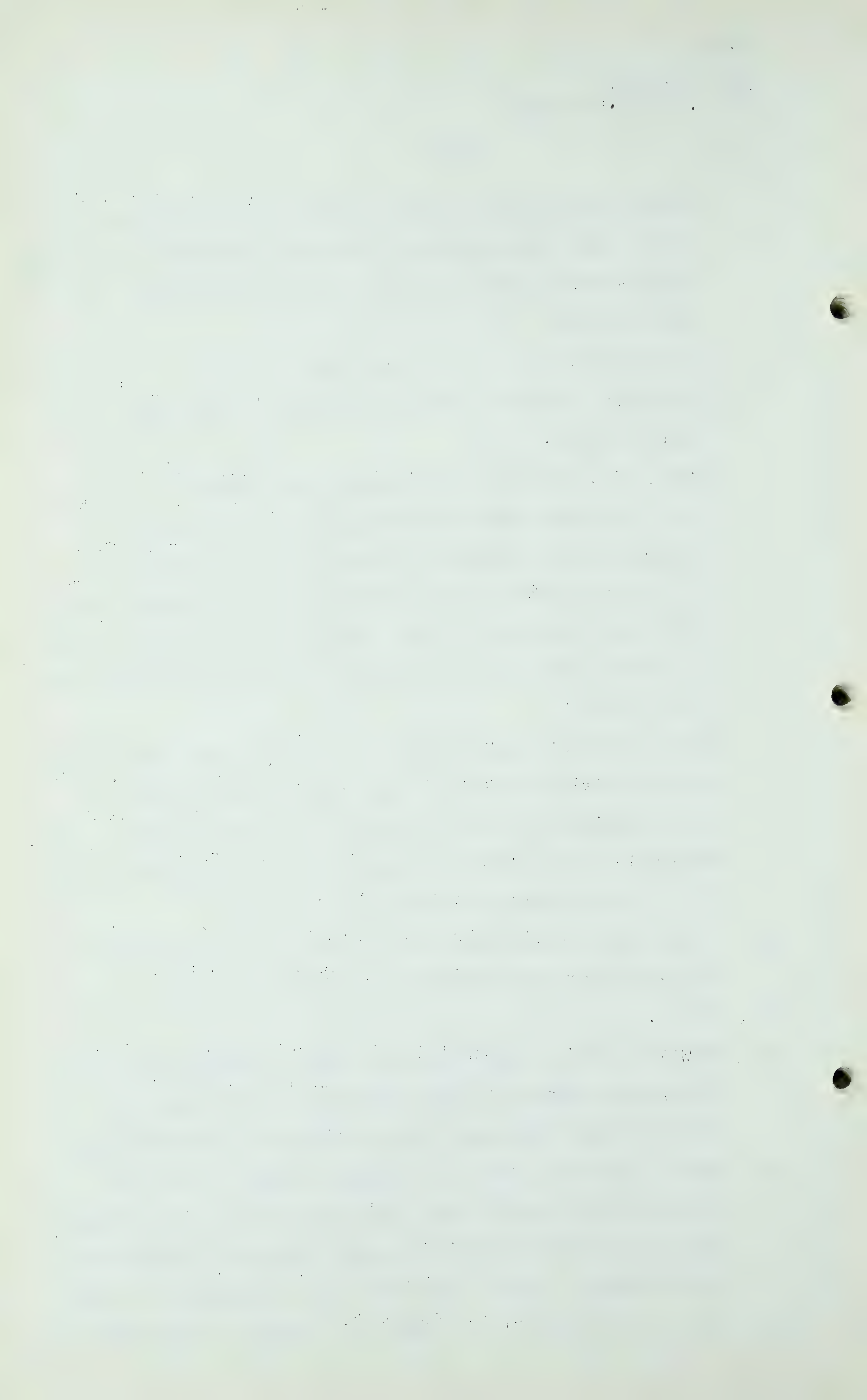
A Well, the entire case of the Pacific Northwest including the acquiring of Canadian gas, will be presented. Now, we are limited in that as shown in this contract with Prairie to a certain amount and we must arrive economically at the same price for the market.

Q I am only talking about the 100,000 MCF that you say that you are dedicating to the Canadian market?

A Yes.

Q Will you give us something in detail how that would work, something compared to what you would have to give the Federal Power Commission in connection with American gas?

A Well, I know that will be available at the time of the Hearing before the Federal Power Commission, because when the gas reaches the border it goes into the Pacific Northwest's system, and at that point its jurisdiction is that part of the Pacific Northwest. It arrives at the market



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as Pacific Northwest and naturally is part of the whole.

We are economic in our project and we can handle the sale of the gas within the limits that the market requires.

Q You might have reasons as to why you don't do it, but the only question I am asking you is if you are going to do it?

A At the time of the Federal Power Commission....

Q No, no. I am wondering if you understand what I am driving at? If you do not, I am sure the fault is mine. I got the impression when you were answering Mr. Nolan that you had very positive views that matters relating to American gas to American markets was none of our business. I am putting it in blunt language?

A I did not mean to imply that. It is very much your business.

Q I am talking about what I took it you said before, that it was none of our business, and I am only going to ask you one question, whether you are going to do it or not, I do not want to know anything about your reasons, I just want to know if you are going to do it. Are you going to present similar complete detailed statements that you say you are going to present to the Federal Power Commission relative to American gas to American markets, are you going to present similar statements relating to Canadian gas to Canadian markets to this Board, whose business I conceive it is to be. If you answer that I will not ask you another question.

A Well, the proceedings at the Hearing before the Washington Federal Power Commission will be fully available in all its testimony to this Board.

Q Now, I am talking about this, are you going to present

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those details to this Board? I think that is one question that any expert can answer "yes" or "no". I have not got a "yes" or "no" answer from anybody in connection with all of this, but I have tried to give you one that you can answer "yes" or "no". Are you going to do it or not?

A I do not think I am an expert, Mr. Fenerty, but it is such a part of Pacific Northwest's application that I do not feel that I can at the present time.

Q That is all I wanted to know. You are not in a position to do it, so that you are not going to do it? That is simple, isn't it?

A I do not want to appear in that answer to be withholding any information from this Board, because I realize the very serious nature of the considerations of this Board, but we have a very serious presentation to the Federal Power Commission at Washington, and we are going to supply a need that is very vital to the Pacific Northwest in their domestic and other requirements, and it is of very vital interest to that area, and we want to present that case to the Federal Power Commission in all its aspects, and we do not want other people to have information that might make them too well prepared to upset it.

Q I understand that, and I hope you understand that I am vitally interested in the possible impact on the local cost, and I want to find out from someone what you can pay for gas from Alberta, and I am going to find out from someone somehow if I keep the Board until Christmas, if they will listen to me.

A I would like to say this, Mr. Fenerty, that at the present time, as I understand the procedure here, the Government

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has stated that the well head price will be $4\frac{1}{2}$ cents.

I cannot foresee any export company deviating from the price structure that is established in Alberta at the present time.

Q They would not be able to, that is right.

A And as such I do not see that we would impair the economics of the local service provided the dedication of gas were made to the local service and also made to the export also.

Q You probably did not know that many other initial contracts were presented?

A Yes, I am familiar with that.

Q Which could run it up to the equivalent of, I think, 18 cents for scrubbed gas at the gate of the Canadian Western?

A Yes, sir, but it is just as much to the interest of the exporting company.....

Q You see why we might be worried?

A Yes, but it is as much to the interest of the local company as to the exporting company.

Q But you understand why we are in Southern Alberta on a competitive basis with no contract as to price, that we might be concerned with 18 cent gas?

A Yes.

Q And I am trying to find out what you would have to buy it at to keep the thing economical, and I cannot get it from anybody?

A Well, I think the dictates of the Government would be very important in those considerations.

Q I wish you could give it to me.

.....

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CROSS-EXAMINATION BY MR. McDONALD:

Q Mr. Herring, if you will just look at your exhibit. I have forgotten the number of it, Exhibit 2.

MR. C. E. SMITH: Exhibit 2 is the map here.

MR. McDONALD: Oh, that is right, that is Exhibit 2.

MR. C. E. SMITH: Herring's statement is 4.

MR. McDONALD: Oh, yes.

Q You refer to your thorough study of the market. Did you do that personally or did you employ the engineers to make it?

A On this market survey?

Q Yes?

A I directed the work personally.

Q You directed the work personally?

A Yes.

Q And I take it that all you have presented to us here is this study of the maximum requirements of the natural gas in the Province of British Columbia?

A Yes, sir, that is correct.

Q All your surveys of other markets in the Pacific Northwest were along a similar basis as this study?

A The basis for estimate is the same.

Q The basis for estimate is the same?

A Yes.

Q And you have at the end of the first year the estimates as you have presented here, and then you have a potential demand for the prospective market. Is that the way that you prepared it for the other parties, the other sections of the Pacific Northwest?

A

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A In financing a line, Mr. McDonald....

Q Well, no, just a moment, Mr. Herring. I asked you, is that the way that you prepared it? Did you or did you not do it?

A In our presentation to Washington it will not be on that basis.

Q It will not be?

A Yes.

Q That is exactly what I was going to ask you next. You certainly have, or, at least, you have your estimates here, first, second, third, fourth or fifth years?

A That is correct.

Q That is your estimate for the first, second, third, fourth or fifth years?

A Yes.

Q Is it prepared?

A It is being completed.

Q Is it completed for the Province of British Columbia?

A I am not certain. I will have to consult my organization.

Q If so, why isn't it presented in evidence here rather than this type of a document?

A I can readily make it available.

Q The only point that I am raising, sir, is that you have given us one at the start of your submission, your deliveries here, and then you give us the potential, you gave the formula at which you arrived at your potential which any school boy can calculate?

A That is correct.

Q How about the fifth year?

MR.S. B. SMITH:

Except, Mr. McDonald, we are the

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ones that decide what evidence we will give here, not
D. P. McDonald.

MR. McDONALD: I am only asking him why he hasn't
put it in, done it that way?

A We have asked for 100 million cubic feet of gas per day
to be dedicated to the British Columbia market.

Q Yes?

A The only question in your mind or in the mind of Mr. Main-
waring, who was on the stand yesterday, was the date at
which we might reach that potential figure.

Q Yes?

A Now, in that light, it is purely a matter of judgment.
We have made extensive surveys in the United States and
watched the development towards the saturation point.

We have those surveys available and we can send those
surveys up to the Board for their information if they like.
In the light of Mr. Mainwaring's statement, as I recall it,
yesterday, it was to the effect that he would expect at
the end of five years to reach somewhere in the neighbour-
hood of 35% of the potential. That, on thinking of it
later, figures out to what we estimated as potential and
fills the formula that we have used.

Q You are saying here that at the end of the first year's
deliveries to the, I am not sure whether it is all Vancouver
or British Columbia, there is some 8 billion sales, isn't
that right?

A Only to Vancouver?

Q No, that includes a small amount of Alberta and British
Columbia.

A Alberta and British Columbia markets, 8 billion.

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Q Yes? That includes Kimberley and Trail, that is in the first year?

A That is correct.

Q And that will give you roughly about 5 billion for the Vancouver area?

A That would be slightly in excess of 3 billion, would it not?

Q Yes. The only figures over and above that are the figures of the B.C. Electric in that?

A Yes, 1 billion cubic feet of interruptible industrial which we have determined is available to us on that basis.

Q But you will prepare for the Federal Power Commission, and have in the course of preparation, your first, second, third, fourth and fifth year's of this particular market that you have in this exhibit here?

A Yes, and we will make it available to the Board, if they like.

Q Well, I think it would be useful.

A Fine.

Q Now, I just wanted to ascertain the scheme that you have in mind. You really have two proposals, two tentative proposals, one is to get all your gas from Texas and deliver it to your prospective market, the other is to get part of your gas in Texas and part of it in Alberta, and deliver it to prospective markets?

A I would say we have three different schemes because we are considering now the very serious need of natural gas service in Eastern Canada, and we would like very much to go into that phase of our program.

Q Now, then, if you are going to take the gas from Texas,

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as I understand it, the Pacific Northwest market, as you estimate it, from the figures I gleaned from you, it is roughly 260,000 MCF per day average, that is the Pacific Northwest market?

A Yes, that is the Pacific Northwest.

Q And, as I understand it, that is the market that has been roughly detailed that would be served by the proposals that have been before this Board?

A Yes.

Q So that between, between 313 million, I think it is, and your 260 million is the market that is served from Hanford, or from Idaho, shall we say, south from Denver, or what other point you have?

A Yes, generally speaking. I have the detailed figures available in our home office. I would not like to give you the exact figures along the various segments of the line.

Q Roughly, that is right?

A Yes, roughly that is correct.

Q Now, you have a situation then on the one hand in which you are going to deliver to the common market this total of 260,000 MCF per day average as compared to another situation where you would deliver from Texas 160,000 MCF per day average and 100,000 per day MCF average from Alberta?

A That is correct.

Q Now, in the first case you would have to engineer your line, provide the capacity, and your compressor investment, to deliver the 260,000 MCF?

A That is correct.

Q In the other case you would only provide the compressor

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capacity and the facilities to deliver the 160,000 MCF?

A After you leave Idaho.

Q After you leave Idaho?

A Yes, approximately.

Q No, after you leave Denver?

A No, the Pacific Northwest market that I am referring to, and have referred to, is the States of Washington, Oregon and British Columbia.

Q But you are going to have 160,000 MCF capacity in that line somewhere as between the two points of delivery. If you are going to take 100 million from Alberta you wouldn't have to get 100 million a day from Texas?

A That is correct.

Q So that you do not need to put in the extra in your Texas line to do that?

A Well,.....

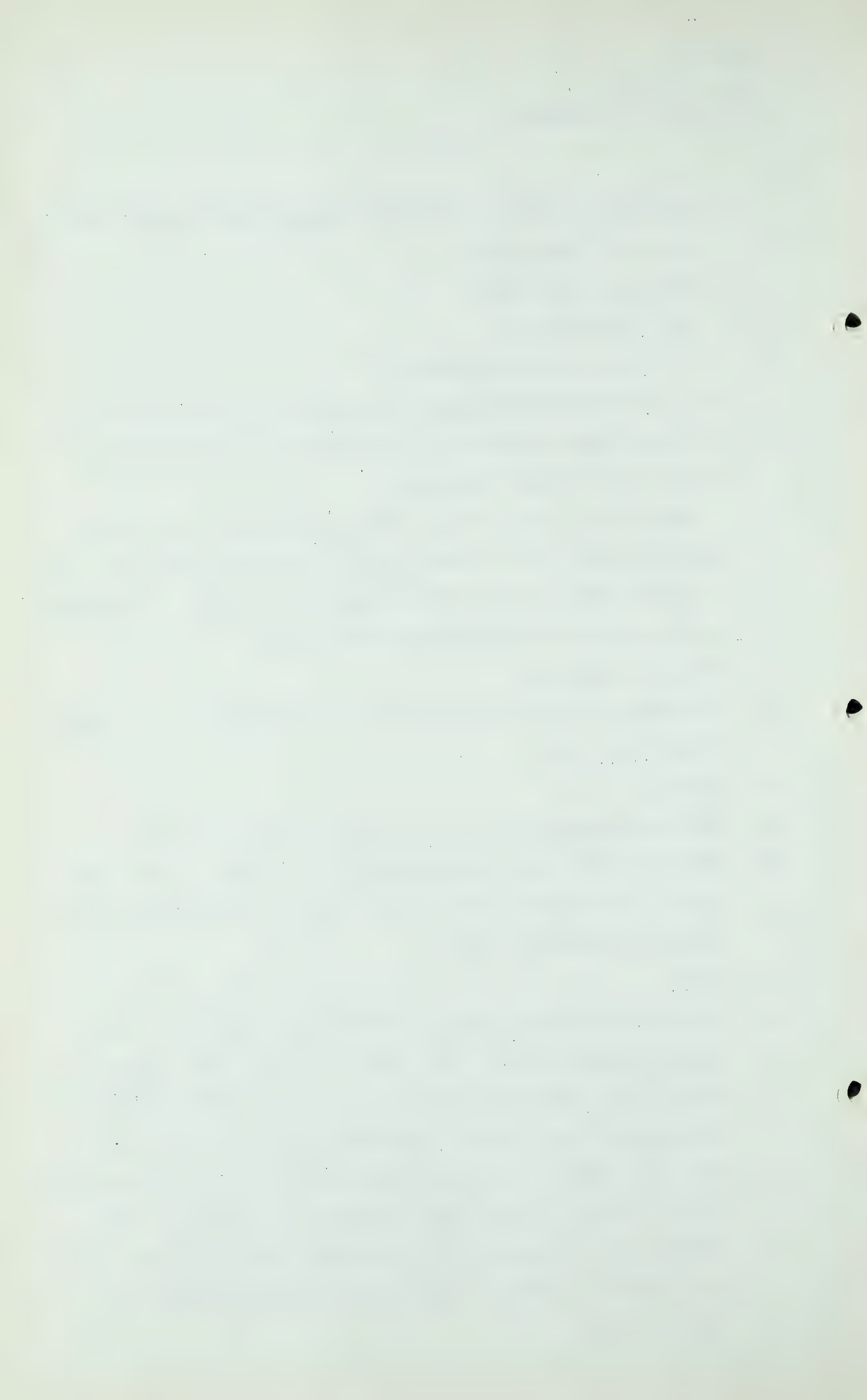
Q The extra capacity in your Texas line to do that?

A Well, we will have the capacity in our line to take care of the load growth if it is not available in Alberta, and we will prepare for that.

Q Yes?

A Now, as to the engineering details with regard to the Pacific Northwest, we will have testimony with regard to that, and I wouldn't like to go into the exact details of the project, as I am not completely familiar with it.

Q The only thing I am getting at, Mr. Herring, is, if there is a difference in the total investment. Is there a difference in the total cost of transportation of gas to the Pacific Northwest market generally as between the two schemes?



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A In other words, if we have Alberta gas available?

Q Yes?

A In the amount of 100,000 MCF per day?

Q Yes?

A And Texas gas at 250,000 MCF per day?

Q Yes?

A In reaching the market?

Q Yes.

A To compare with the 350,000 MCF per day from the Gulf Coast to the market?

Q Yes?

A Mr. Fish has stated up here, and this is based on our engineering studies, and I believe that the difference would be approximately $1\frac{1}{2}$ cents per thousand cubic feet of natural gas. There is a very positive answer to your question.

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Q And that is based on the estimates you have made up to date?

A That is correct. Incidentally, as this line goes along our load is increasing. We have available to us right now a market for 30 million cubic feet that we did not have at the time we made those figures. As your load increases your price goes down. We are very optimistic as to price.

Q Will you agree with me if Texas gas goes into and provides for those industries you have mentioned - I am speaking of this Pacific market, is there any reason why Alberta gas cannot be also sold and provide identical service and the price, say, is right?

A If the gas is deliverable and available I see no reason at all. That is the reason we have asked for the full volume.

Q And could Alberta gas be sold there, provided there is the same deliverability and the same availability and gas at the same price?

A Are you talking about the Pacific Northwest Pipeline Corporation also being in that market?

Q No. You have been excluded?

A In that event, no. That is the reason we have asked for the entire amount of gas necessary to serve it if it is available. Our object in asking for that is so that we may make gas available in Eastern Canada for the Eastern Canadian market. Several companies for several years have been trying to get into Eastern Canadian market and have not been able to do so on

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account of the difficulties encountered. But we feel that here we have the way to do it.

Q Is not this the situation that your company, the Pacific Northwest Pipeline Corporation, through taking Alberta gas to the Pacific North West and to Eastern Canada, which are really the only two possible markets for Alberta gas that exist on this continent, and you would be supplying and you would be the only purchaser of natural gas in Alberta. Is not that the situation?

A Other Provincial markets would be available as they grow.

Q I am not speaking of Alberta or adjacent markets?

A We have stated that we would make the U. S. markets available to Alberta gas if they so needed it.

Q Through the parent company?

A Yes. We would not list any line to it, but if such a line were demanded and were economically feasible, and the gas were available to build the line, well, we have made application to this Board for gas to serve that project. But we are not endeavouring to be monopolistic in that project.

Q Now, Mr. Herring, I do not want to go into the matter of price to any extent. There was a great deal of evidence produced yesterday by Mr. Mainwaring with regard to the price of gas that his company could afford to pay at Vancouver. Have you had negotiations with Mr. Mainwaring with regard to such prices of gas in Vancouver?

A In establishing our project, Mr. McDonald, if we could not be fully competitive with these competing fuels such as oil and coal within the price range established by

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Mr. Mainwaring yesterday, it would be very foolish of us to spend our money on a project such as the project we have. We will have financial testimony available this afternoon that can speak with authority on the financial feasibility of our project and among the subjects to be discussed will be prices and the consideration of this gas reaching the market at a price able to acquire this volume, within the price range established by Mr. Mainwaring.

Q Whoever your witness is this afternoon he will be prepared to deal with the points I have mentioned?

A With the feasibility of our project and its financibility.

Q Can you tell me this, Mr. Herring, dealing particularly with the Trail section of your line I think in the exhibit prepared by McDonald Biddison you show a line to Trail, and you show it as leaving your main line somewhere in the vicinity of Newport?

A Yes, sir.

Q That line is roughly 80 miles long?

A I believe that is correct, although I am not too familiar.

Q In calculating the price of gas at Trail would you charge to Trail the cost of that line from Newport to Trail?

A The reason for following that route, may I make this clear, is because Metylene Falls is just south of the border and that is a cement plant which will use in the neighbourhood of 3 to 5 million cubic feet per year. At the present time they are using around 3, but they have a projected programme that will make a sizeable load for that area. As regards serving Trail through

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that line I want to say that we would charge the same price at Trail as in our United States market. We are attempting to be a little higher in our prices for our industrial gas because that would cut down your price to the domestic consumer. As we have said, we will serve the Canadian market at the same price as the United States market.

Q Even if it is uneconomic to deliver gas to Trail?

A Trail is included as part of the whole project and will be amortized in the same way.

Q The only line that you leave out of your capitalization is the Victoria line?

A That is right, because that is a different type of project.

Q It is a most unusual type of project?

A It is not the ordinary project, no, sir.

Q Can you tell me roughly what the figures are you calculate your investment in the Victoria line will be above your general investment?

A No, sir, because I am not familiar with the cost estimate. As Mr. Fish stated, we have experts at work and I am not too familiar with that question and I would not care to testify on it.

Q That is all.

CROSS-EXAMINATION BY MR. MAHAFFY:

Q There are a few questions I would like to ask you, Mr. Herring. As you know, Mr. Herring, I am particularly interested in the gathering, the Provincial gathering

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system which you discussed with your counsel Mr. Smith vwrý briefly this morning. Now, first of all, Mr. Herring, in your Exhibit 6, which is Estimated Future Requirements of Natural Gas, Province of Alberta, on page 5 in the conclusion section, you say in the first part of that paragraph:

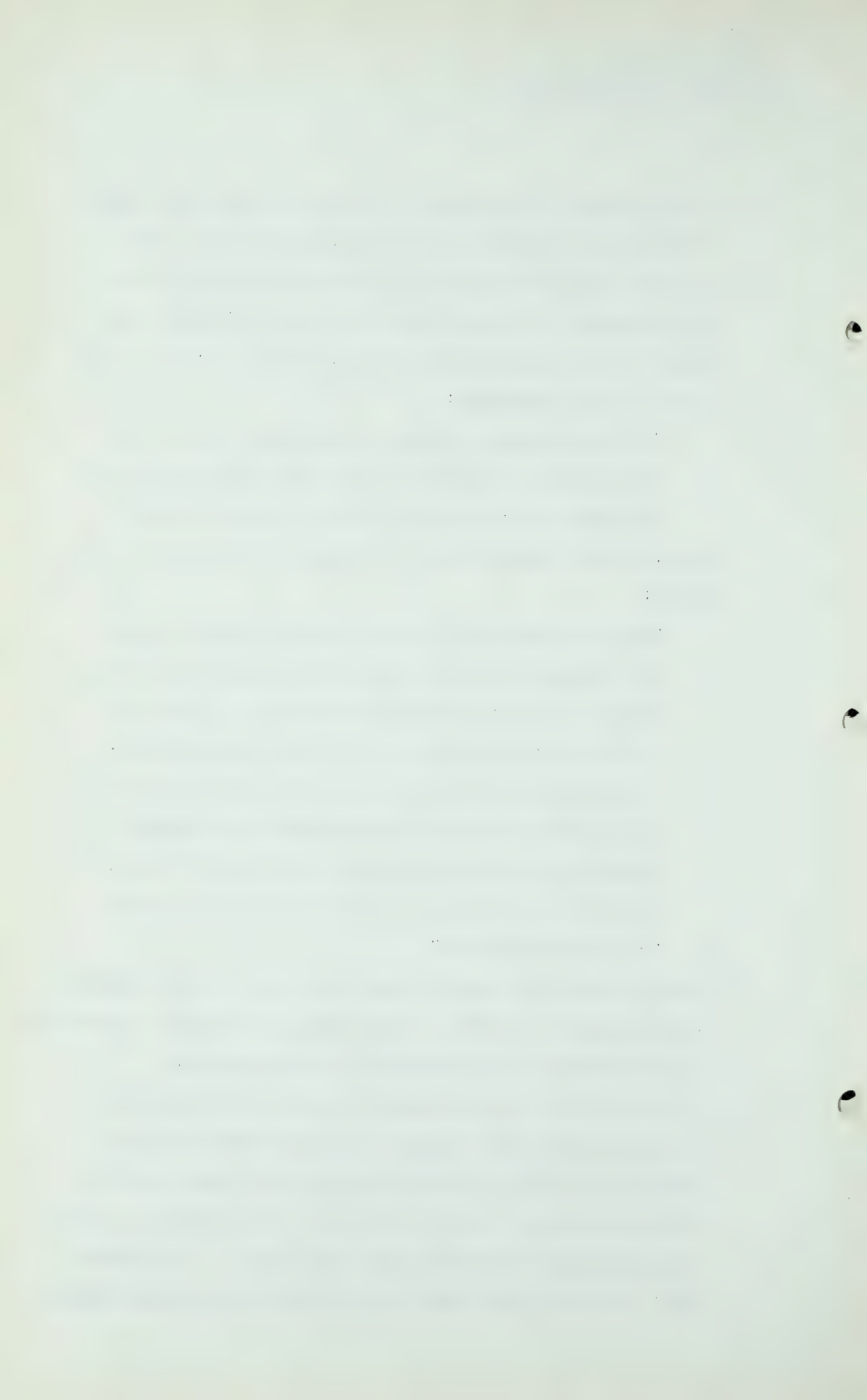
"As shown by the attached schedules, each of the utilities of the Province is now backed by proven reserves adequate for 30 to 50 years of life."

Well, I won't bother with that part at the moment. You go on:

"When the probable reserve within economic reach of the gathering systems of these utilities have been thoroughly developed there is no doubt of the service in excess of 50 years is available. In increasing this reserve picture to 50 years it is possible that the Canadian Western Company might require some reserves from Pincher Creek, possibly as much as one-half ($\frac{1}{2}$) of the proven gas in this field."

Now how would that gas be made available to the Canadian Western market , which, as you know, is Calgary, Lethbridge, and the towns in the vicinity of those cities?

A In considering the problem of the Alber a supply, it was recognized that Calgary had less proven reserves immediately available and contracted for than had the Edmonton system, and as such had a less number of years' life ahead of it than did the other city. In asking for a volume of gas which some engineers, some geologists,



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had placed as probable, Pincher Creek was at an ideal point and was removed from any immediate distribution. Pincher Creek could be tied in later on to the Calgary requirement. It would be a longer extension from the gathering system of the Canadian Western Company than a possible extension down to the Southeast.

Q But you would have the cost of gathering that gas and transporting it to Calgary?

A I said it was available and if the field is proven it might be that you could dedicate one-half of that peak of cubic feet to one purpose and the other half could be dedicated to another purpose, and both volumes would be available to whatever market it was dedicated to.

Q Assuming it is dedicated to the Calgary market, how is it going to get there? Have you given any study to this local situation?

A I have, but - and I seem to keep on qualifying myself on the stand here, but I feel Mr. Galloway is the geologist and with respect, sir, will be able to help the Board to come to an opinion much better in these areas as to the reserves available than am I.

Q Excuse me interrupting, that is hardly the point I am getting at. Assuming that Calgary system needs gas from Pincher Creek, how does that gas get from that field to Calgary?

A As stated this morning - -

Q Through a pipe line, is it not?

A Yes, the local company would extend the pipe line to it.

Q That would be a fairly lengthy pipe line?

A It would.

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Q And a fairly costly one?

A It would.

MR. S. B. SMITH: There is a pipe line to Macleod
now.

Q MR. MAHAFFY: Your counsel states there is a
pipe line to Macleod. Is there a pipe line at Macleod?

A I am not familiar with the local gathering system to any
extent.

Q Do you know if that pipe line would have sufficient
capacity to bring gas from Pincher Creek?

A I am not familiar with the local gathering system.

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Q In any event, it would require a pipe line connection from Pincher to the Calgary system, wherever that could be properly done? That is right, isn't it?

A That is right.

Q And that pipe line costs money. We are agreed on that?

A That is right.

Q And I think you suggested this morning, if I understood you correctly, that in some way public utility corporations could make provision for these additional pipe lines without any increase in the cost of gas. Did I get you right on that?

MR. S.B. SMITH:

That is not what he said.

Q MR. MAHAFFY:

Well, I am asking him.

A Well, to this extent, in Texas, and I say this for the basis of my experience because it has not been personal, the area where I grew up was served by the Lone Star Gas Company. They have extended their system over and over again until today they have an investment of 166 million dollars in major lines. They have increased their price once in that period of 21 years. That is the basis for that statement.

Q Well now, isn't it true, or have you had experience in public utility practice, that where additional capital expenditures are made the rate base is automatically increased and that may very easily result in an increase in rates?

A If your capital investment exceeds the immediate bonding structure of the company or the earning capacity of the company and it requires an additional increase in gas

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cost to the consumer, to amortize that additional line it may well be true that one particular extension, due to that heavy cost, may require such. But I base my observations on the extension of gas gathering systems in Texas.

Q If several million dollars have to be spent getting gas from Pincher to Calgary, or the Calgary system, where does that money come from and who is going to be paying for it?

A Your local consumers.

Q The consumer is going to pay for it?

A That is right.

Q How much, of course, depends on the cost of the job. Now, Mr. Fish has made some statements with respect to a gathering system and you have too, Mr. Herring. The first one by Mr. Fish is set out in Exhibit 1, pages 6 and 7, starting at the bottom of page 6. That is the statement of Prairie Pipe Lines Limited and Prairie Transmission Lines Limited. He said there:

" Prairie initially proposes to construct its natural gas transmission system in Alberta Province to the gas producing fields in the southwestern part of the Province. These fields are not now connected to any gas gathering system. Prairie further agrees that it will either severally or jointly with others construct a grid system in the Province of Alberta connecting all major gas reserves whenever such a system is justified and can be financed. It is the opinion of Prairie that no such system at the present time is either required or justified, as the gas producing areas

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"are only now being defined and developed. Such a system should have an increment growth as required to market the surplus natural gas."

Now, I assume you agree with that general statement?

A Yes, sir.

Q From what you said this morning. Now, I have not heard any contrary view during the course of these proceedings with respect to the method of construction and I just want to confirm this. What you are saying is that until a gathering system is needed that it should not be built?

A That is correct.

Q But in the future that it no doubt will be needed and at that time it would probably be a good idea, depending on the development of fields and so on?

A Well, my feeling is, it is something that will grow naturally through the efforts of the company.

Q Now, would you agree with me that in the interests of exporters, local consumers, and in the interests of Provincial control, of conservation measures, that it is an objective to drive for, that is, a well planned-out system of gathering gas? Do you agree with that?

A I would agree, and I would like to make this further statement, that the ideal situation would be a grid gathering system, this is in my opinion, if it would not place a great burden of cost on the consumers involved.

Q That is right, it is an economical problem?

A That is the reason for qualifying the - -

Q It is an economical problem, after all?

A That is right. I feel the Board in its consideration can

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foresee the various developments and the requirements and can begin to project this grid system and foresee the requirements and the available reserves and it undoubtedly would work to the benefit of both parties, but it would be very difficult to follow any established reserves and the requirements and so forth.

Q In other words, what you say is that it is impossible for anybody to say now where all the gas reserves of the Province are?

A That is right.

Q And therefore it would be silly to lay out a complete plan now for a grid system covering the Province and endeavour to build one. You say it would not be economical to do that?

A That is correct.

Q But you also agree with me when I suggest to you, I take it, that to the extent possible the beginnings of that type of system should be instituted before we get too far with the export of gas and the accumulation of various gathering systems?

A If it did not place a burden on the local consumers or the exporting gas consumers, I would say yes.

Q Now, have you in your investigations of our problems in this part of the world given any consideration, Mr. Herring, to what would happen, what will happen to what we have called "oil field gas"? Just to illustrate what I mean, in the Leduc Field there is now a substantial volume of gas being produced with the oil.

A Solution gas.

Q Yes. And ordinarily if there is no market for that gas

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or no place to store it or anything of that sort, that gas has to be flared if the oil is to be produced. That is right, isn't it?

A Yes, sir.

Q And I suppose you would agree that if at all possible the flaring of that gas should be prevented?

A I seem to be referring to Texas again, but that is the policy of Texans. We have in the State now a no-flare law which requires local distributing companies to take casing head gas or solution gas in the volume at which it is produced through gasoline plants after extraction and to cut back and take on dry gas wells in the interests of conservation, and I think that is a very sensible program in our State at the present time.

Q I will agree with that. You also briefly said that that would be the policy of this Conservation Board in Alberta?

A Now then, would you agree with me again with the ifs and ands and buts about the economics of a gathering system that such a gathering system might be - - and I use the word "might" advisedly - - might be a very distinct advantage in working out a conservation scheme in connection with oil field gas?

A Well, my point has to be taken on the basis of the consumer cost because I am talking from the utility point of view.

Q I would like you to talk now - -

MR. S.B. SMITH: Would you let him finish.

Q MR. MAHAFFY: I will in just a minute.

Would you mind discussing it with me on the basis, if I

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may suggest this to you, of the general interests of the Province of Alberta.

MR. S.B. SMITH: May I ask that the witness be permitted to answer the question he was asked. He was starting to and he was interrupted.

A Well, I would have to insist upon a thorough analysis of the consumer costs of any system and the extension of that system. A grid system would have to be tempered by consumer costs. Now, conservation of such fields as Leduc must be taken care of but not at an excessive cost burden on the consumer.

Q Well, what would your view then be, Mr. Herring, in your own particular case now, Pacific Northwest, that you should be able to run a line into the Southwest corner of the Province and remove gas from there at the lowest possible price to your consumers without regard to other gas reserves and conservation measures in the Province?

A Not at all. We have requested from the Board 100 million cubic feet of gas per day for a 20-year contract from Pincher Creek or such other fields as directed by the Board. Now, on 100 million cubic feet we could economically go only a certain distance into the Province and the Board would bear that in mind, I am certain, in allocating an export volume. We are still at the direction of the Board in that matter.

Q What would your views be, assuming in the interests of conservation this Board should say that gas from Pincher Creek or from some other reserve in the south part of the Province should not be used except as a supplement to

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oil field flare gas which was being wasted in other fields?

A And made other gas available to the export company?

Q Yes?

A If economical, we would gladly go to the other field.

Q And would an economic gathering system established by all users in working out a scheme like that - -

A We would like to be prepared to meet the second and third phase of our program in establishing line capacity. It is my opinion that any initial grid system in which both parties participate, the local companies and the exporting line, in order to take care of our second and third phase operations as to capacity as nearly as possible would place and excessive cost burden if it also took into consideration the local utilities and attempted to expand to cover various areas. Now, I could easily be wrong in that, and if in establishing their policy the Board sees an economical way to start that grid system, and we have stated in our application that we would like to participate in the construction of such a grid system, that I would temper that by one statement, consumer costs.

Q Why do you say you would like to participate in the building of a grid system?

A Because of a statement that was made yesterday that even though the Board rigidly controls through regulation a single private ownership of a grid system, the movement of that gas would necessarily be to the Board - - even though he was a fair-minded man if he was President of a corporation, and I would put myself in this same position, I would be inclined to favour the company that

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I was president of. Now, if it were jointly owned it would undoubtedly be carried on to the benefit of both the exporting company and the domestic company, and that is our sole motive in that matter.

Q Your thought is that any grid system should be jointly owned?

A In the interests of both companies.

Q Local distributors and exporters?

A If there are two export lines later on, possibly they all should participate, but no one company should be placed at the mercy of the other gatherer. It should be operated to the full interests of all the people gathering gas in Alberta.

Q Do you think such a gathering system should be under Provincial control or Dominion control?

A Well, I am a State man. I think it should be under Provincial control.

Q But in the meantime, as far as Pincher Creek is concerned, your theory is that you should be given the right to run your export line direct to that field and remove the gas which you have asked for?

A That is what we have requested, yes, sir.

Q And the company which did that would be the Prairie Transmission Company, would it?

A Necessarily so, I understand. The rulings of the Pipe Line Act would necessitate a Dominion-chartered company constructing that line and exporting that gas.

Q That company, as you know, is under Dominion jurisdiction?

A Surely.

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Q Have you given any thought to what that would do to Provincial control in Pincher Creek?

A Well, I do not think it would create any real difficulty from the consideration that I have given it if the Provincial Government in its regulations allocated a certain volume of gas for export and that volume of gas for export be approved by the Dominion Government I would see no friction between the Dominion Government or the Provincial Government in that matter.

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- MR. S.B. SMITH: You might put a brief broad statement as to the constitutional position of the Dominion.
- A I am testifying on certain matters here that I hesitate to testify on.
- Q MR. MAHAFFY: I am just asking for your views?
- A Yes. I would like to state to this Board that we have been in the gas business for quite a while, and we have quite an operation in the gas business, and in that light we would like to contribute as many observations as we can.
- Q Thank you.
- Q THE CHAIRMAN: There is one question I want to ask you at this time, and that is with regard to the flaring. Did I understand you correctly to say that local utilities had to take the solution gas produced in oil fields?
- A Yes.
- Q Then the big pipe lines do not have to?
- A No, not at all. I will qualify that this way: The major pipe line companies have come in and have contracted for various volumes of gas without a great deal of State regulation. Now, that question that you ask has come up in only one instance, and that is where Mr. Kaiser's company was involved, the El Paso Natural Gas Transporting gas to Southern California and up to San Francisco, and he is operating in a State where there is no flaring and is taking tremendous amounts of casinghead gas. They are required when they are going through these areas where casinghead gas is available, to take it. It creates a problem for all, as they have proration and have said that each of the operators, or under the proration each of the

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operators wants to pay for five days and close down and then not operate and have no operating costs for the other 25 days, and it is quite a problem when proration goes that far. Mr. Kaiser's company is trying to get it worked out over such a period of time to make a regular flow of gas go into the line. It is a great problem. It is my information that he is operating at least 25% of his service, 20% of his service on the basis of casinghead gas at the present time.

Q Does this Texas Act have control over the pipe lines, and they can make the pipe lines take the casinghead gas?

A They can seriously affect it through the regulations of the field that take part in the transportation. Everybody there has co-operated in taking that gas.

Q DR. GOVIER: On that same point, Mr. Herring, is there an economical limitation on the casinghead gas that the State would require them to take?

A Yes. We have still in various isolated sections of the United States some casinghead gas going into the air, and they have got the allowable oil production back to the bare minimum. The natural effect on the producer is for him to try in every conceivable way to sell his gas to produce his oil. And that is the way that they permit these isolated areas to do that. In many areas they are building additional gasoline plants at the present time, and they are beginning to take care of those isolated areas, but there will always be probably a certain amount of flaring, and I would imagine it would be impossible to completely consume the casinghead gas.

Q I imagine it amounts to this, that flaring is not permitted

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where it could economically be avoided, is that correct?

A That is correct. At times you would run into contract difficulties between the producer and the gasoline plant operator and the oil operation stops until that agreement is worked out, and it improves relationships.

Q I have some other questions, Mr. Herring, but I do not know whether somebody else wants to go ahead.

MR.MARTLAND: I have some questions.

.....

CROSS-EXAMINATION BY MR. MARTLAND:

Q Mr.Herring, you have filed as Exhibit 16 a document called "A Brief Estimate of the Natural Gas Requirements of Eastern Canada". I think it is probably well named, it is a very brief estimate on a very big subject, isn't it?

A It surely is.

Q There have been no attempts made to forecast that market beyond the initial year?

A No.

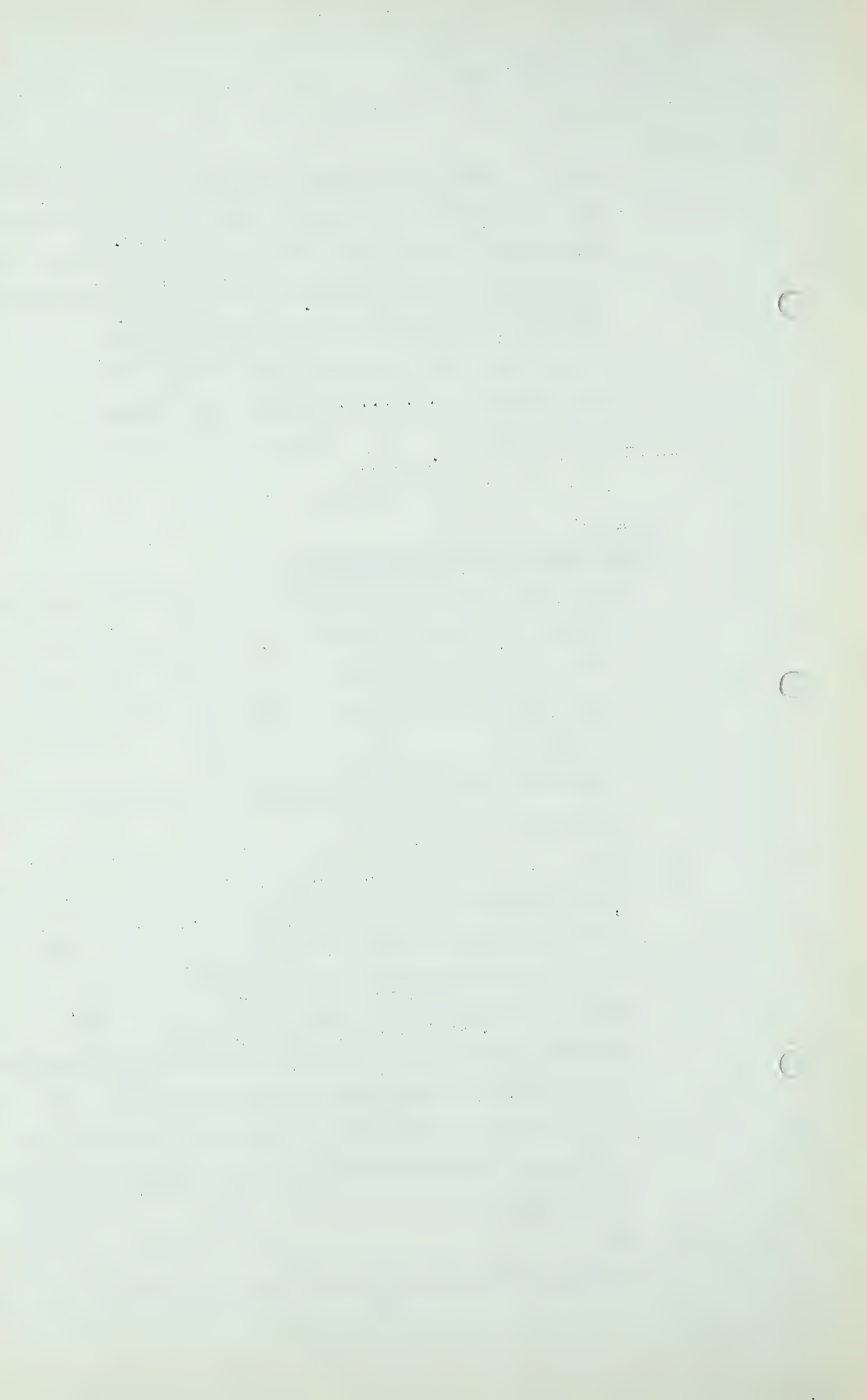
Q And I would take it from that that probably this Eastern Canadian project is what you have described as Phase 2?

A We are concentrating at the present time on Phase 1. Now, we do intend to go into a more detailed survey of Eastern Canada, but we felt for the general information of the Board we should present such facts as we had.

Q Yes. And as Mr. Fish told us yesterday the matter of the line to Eastern Canada is not yet before the Federal Power Commission?

A No.

Q Although ultimately it would have to go there?



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A Surely. That would be for a transport licence.

Q Yes?

A Not for an import-export licence.

Q And that would be a rather unusual application before the Federal Power Commission, wouldn't it, with regard to a line which taps an American reserve and which is designed exclusively for consumers in a foreign market?

A On a reciprocal basis, I think not.

Q Has there ever been one like it before, do you know?

A Not to my knowledge.

Q No. The Federal Power Commission issues what is called a Certificate of Convenience and Necessity?

A That is correct.

Q I take it that is the convenience and necessity of the American consumer rather than any other foreign consumer?

A The consumer within their jurisdiction.

Q Yes. And the matter of the reciprocal arrangement when it would be considered by the Federal Power Commission might be quite seriously affected by the provisions of our own Act, Section 9, with which you are probably familiar?

A Yes, I am.

Q That would be a matter which the Federal Power Commission would have to consider pretty seriously in determining a reciprocal arrangement?

A I quite agree with you. I would make one additional statement there though, if we had financial people who stated to the Federal Power Commission that we could economically finance this extension, and the Federal Power Commission approves the reciprocal exchange of gas on a

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foot for foot basis, I would see no reason whatever for objection by the Federal Power Commission, because the gas would come from Alberta and be dedicated for and taken into Eastern Canada. Now, as you state, that is still subject to the Federal Power Commission's ruling, and you would necessarily have to apply and gain approval.

Q Yes. And it would be something quite new for the Federal Power Commission to deal with?

A It would be.

Q And we cannot forecast what it would do?

A Yes. However, I might point out that the Federal Power Commission is very concerned about Eastern Canada's service and have tried to find some ways of serving it, but due to the great demand they have not arrived at anything.

Q There has been too great a demand in the United States to leave anything over?

A Yes, of existing capacity.

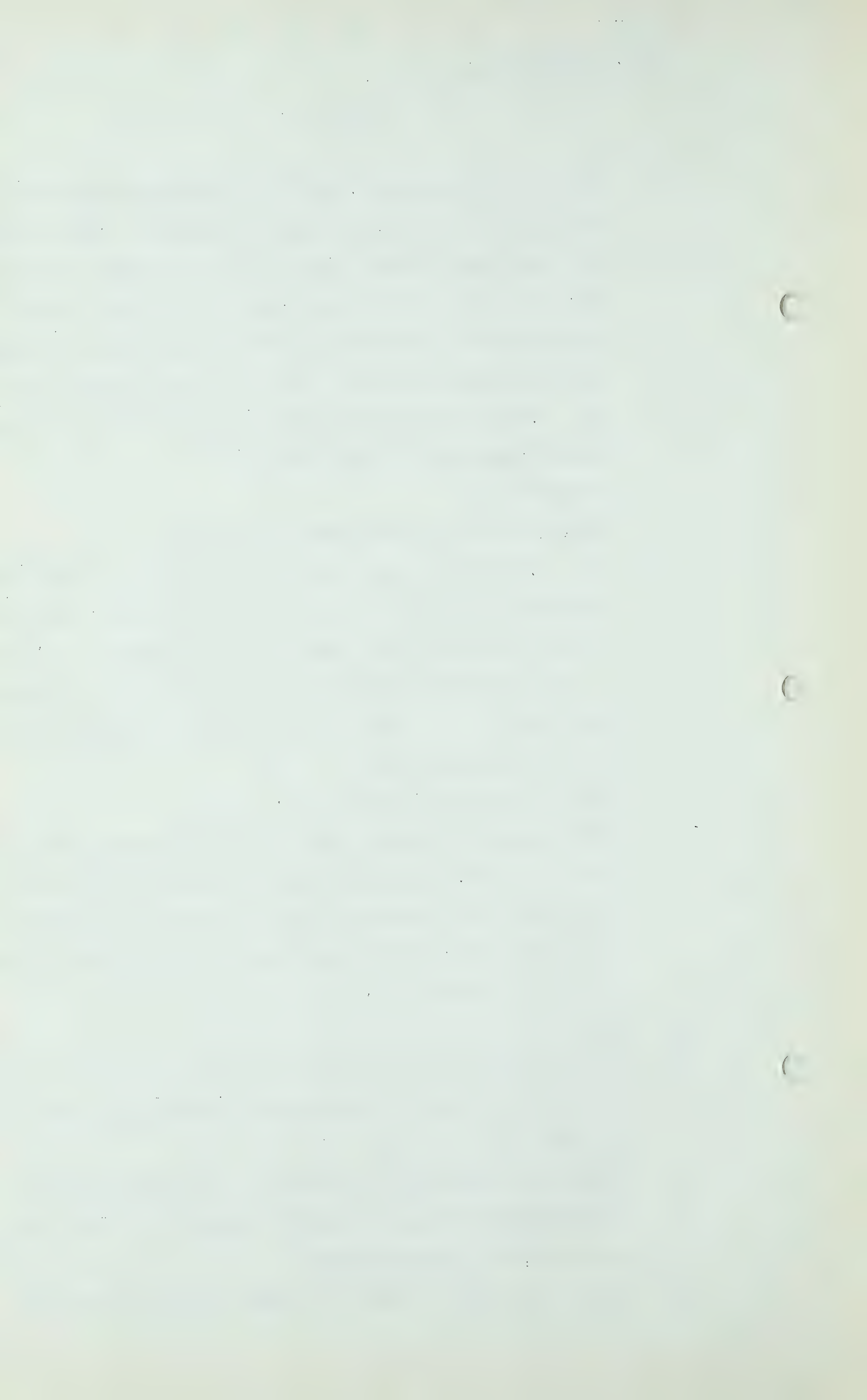
Q Now, turning to another exhibit, and I am referring to Exhibit 6, which was the estimate after the future requirements for natural gas in the Province of Alberta, and I am referring to the second page of the Tables at the back of the document.

A Yes?

Q Can you tell me what reserves are included in that figure of probable reserves for Canadian Western of 2.753 trillion cubic feet of gas?

A I have included that gas which the geologists estimate as proven by taking the general average - of the probable gas, that was your question?

Q It is the probable one that I was anxious to find out



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about?

A I included approximately one-half of Pincher Creek as well as other fields within economic reach of that area.

Q That is what I wanted to get at. That is on the basis of one-half of Pincher Creek?

A Yes.

Q Can you tell me what your breakdown was on the Northwestern Utilities, what went into that proven of 1,143 billion?

A The proven gas?

Q Yes, for Northwest?

A I included a general average of the various geological reports on Viking-Kinsella, Leduc and one other field I am not positive of.

Q Would it be Morinville?

A No, I did not include Morinville in that.

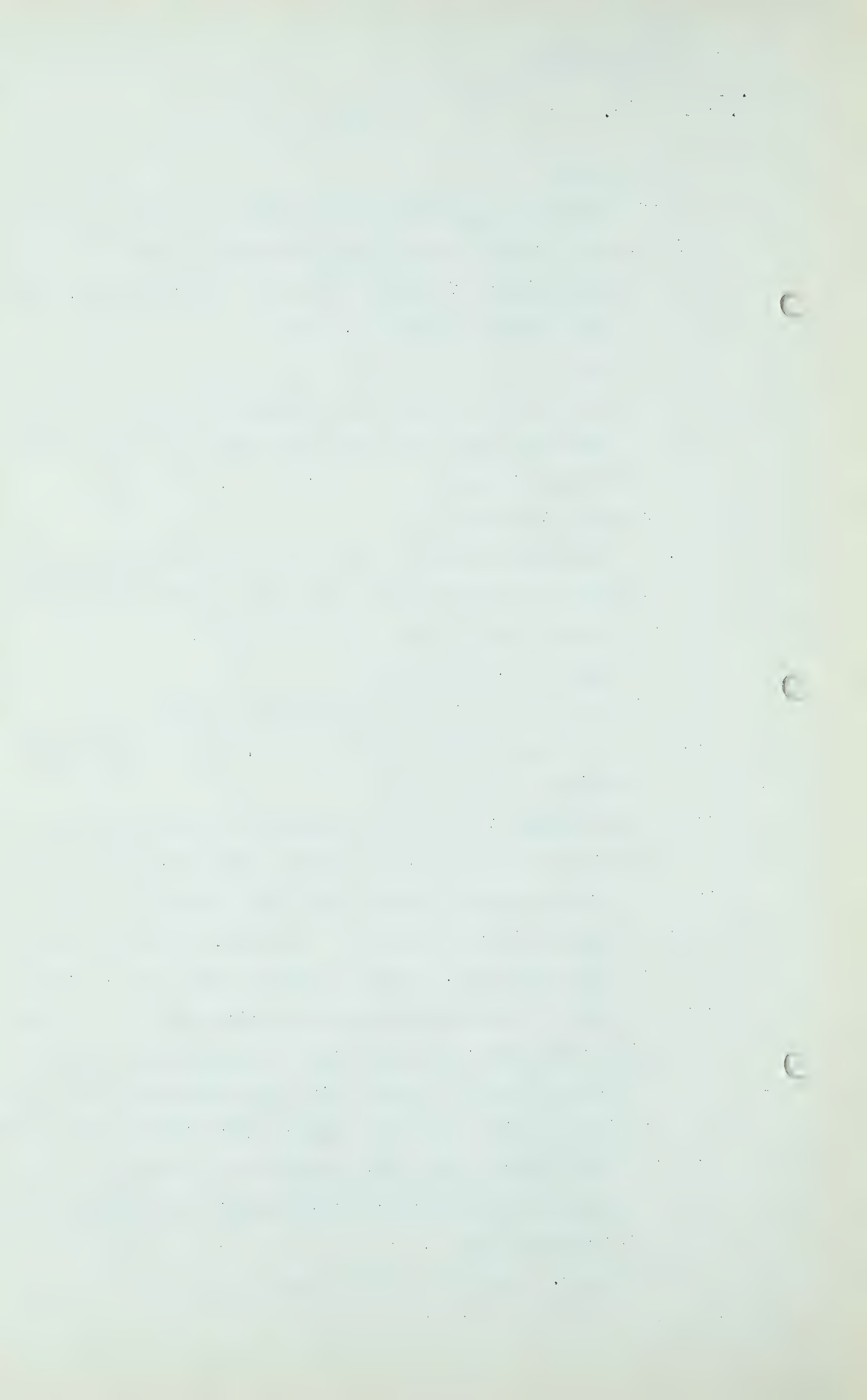
Q I was just interested to have it broken down between proven and probable?

A We worked from all the geological reports that have thus far been presented and tried to work out the general in between all the figures that were available.

Q Just one other question. Can you tell me when you anticipate that the British Columbia market will require the full 100 million cubic feet per day which you ask for?

A My statement was based upon analyzing these various conversions in the United States and watching their growth over the last five-year period, and taking it from that have figured that they would reach it shortly before the second five-year period, which would be shortly before the tenth year.

Q Shortly before the tenth year?



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A Yes. That is based on a study of some 40 converted utilities. Now, anyone else's analysis and judgment will be as capable as ours, but we must ask in our application for that gas which in our estimation is the potential market area.

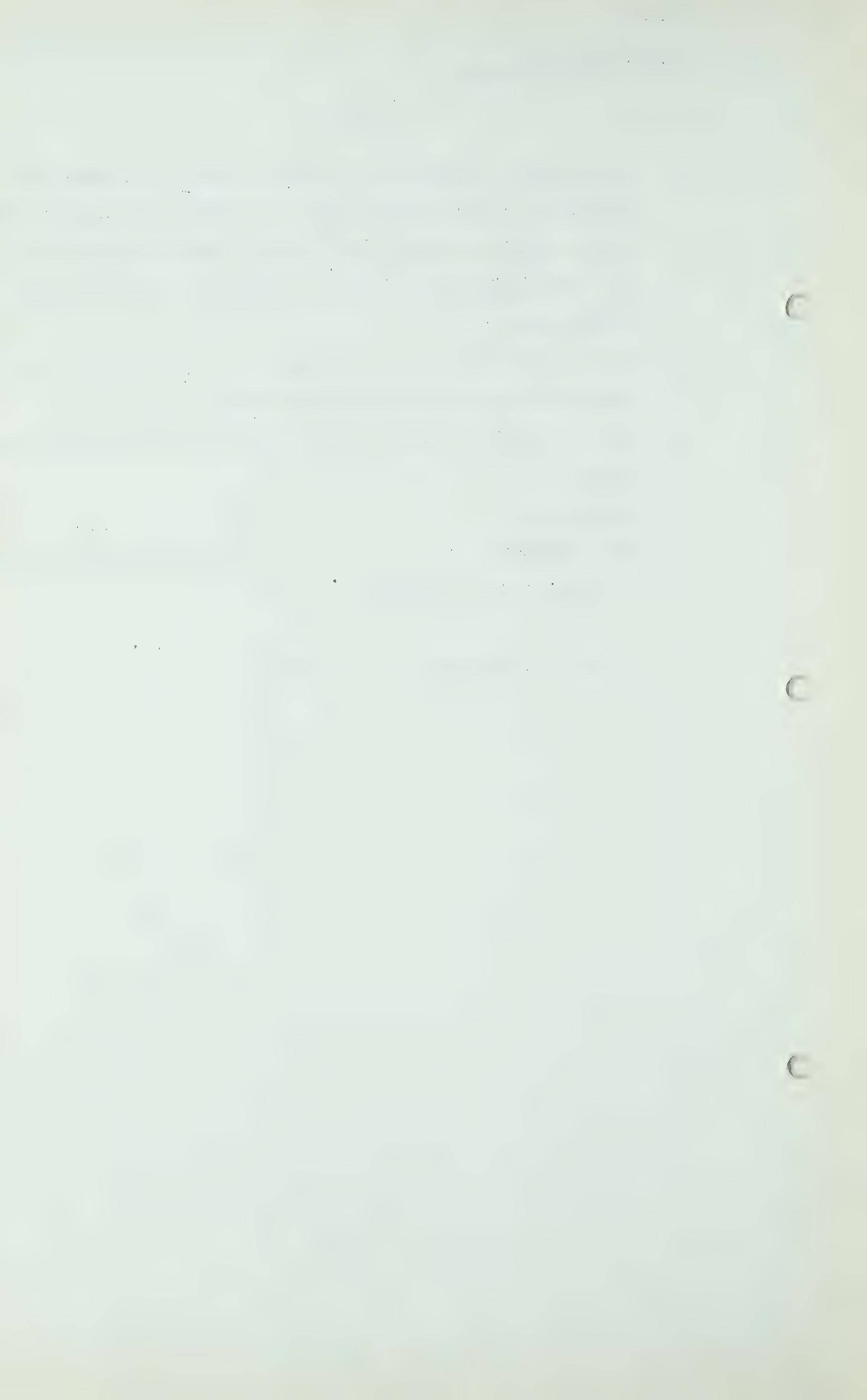
Q And in the intervening time what would you do with the surplus, use it in the United States?

A Yes, it would be used in the United States up until that time.

Q Thank you.

THE CHAIRMAN: I think we might adjourn until
2 o'clock at this time.

(Hearing adjourned and resumed at 2 P.M.)



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THE CHAIRMAN: Is Mr. Martland here?

MR. MAHAFFY: Was Mr. Martland cross-examining when he left? I thought he was through. I saw him just a few minutes ago down town and I am sure that he intended to be present.

MR. C. E. SMITH: I might intervene with a few questions and that will take up the time.

CROSS-EXAMINED BY MR. C. E. SMITH:

Q Mr. Herring, you mentioned this morning about a place in Wyoming which I did not quite catch. Church Buttes?

A Church Buttes.

Q If I followed you correctly, you said there was at one time - and whether you gave the date or not I have forgotten - an estimate of about 3 trillion cubic feet of reserves and that after exploration work that went down to 750 billion?

A My source of information was the officials of the Mountain Fuel area and their estimates were at first about 3 trillion cubic feet and at the present time their estimates are in the neighbourhood of 750 billion cubic feet.

Q And I take it the first estimate was because of geologists' opinions?

A Well, an outline of a field that did not turn out.

Q That could happen anywhere?

A It surely could.

Q I have one other question. You refer to your submission Exhibit 4, and to page 5, and without reading - at the top of the page - and without reading all of it, you



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end the second sentence, I take it, with these words, and you start the third sentence. "As a result of this cheap electricity, a tremendous industrial expansion has taken place in this region." Now I am not questioning the accuracy of that. Do you want to read all the paragraph?

A I have not located the point.

MR. S. B. SMITH: What page is it?

MR. C. E. SMITH: Page 5 of Exhibit 4.

A Yes.

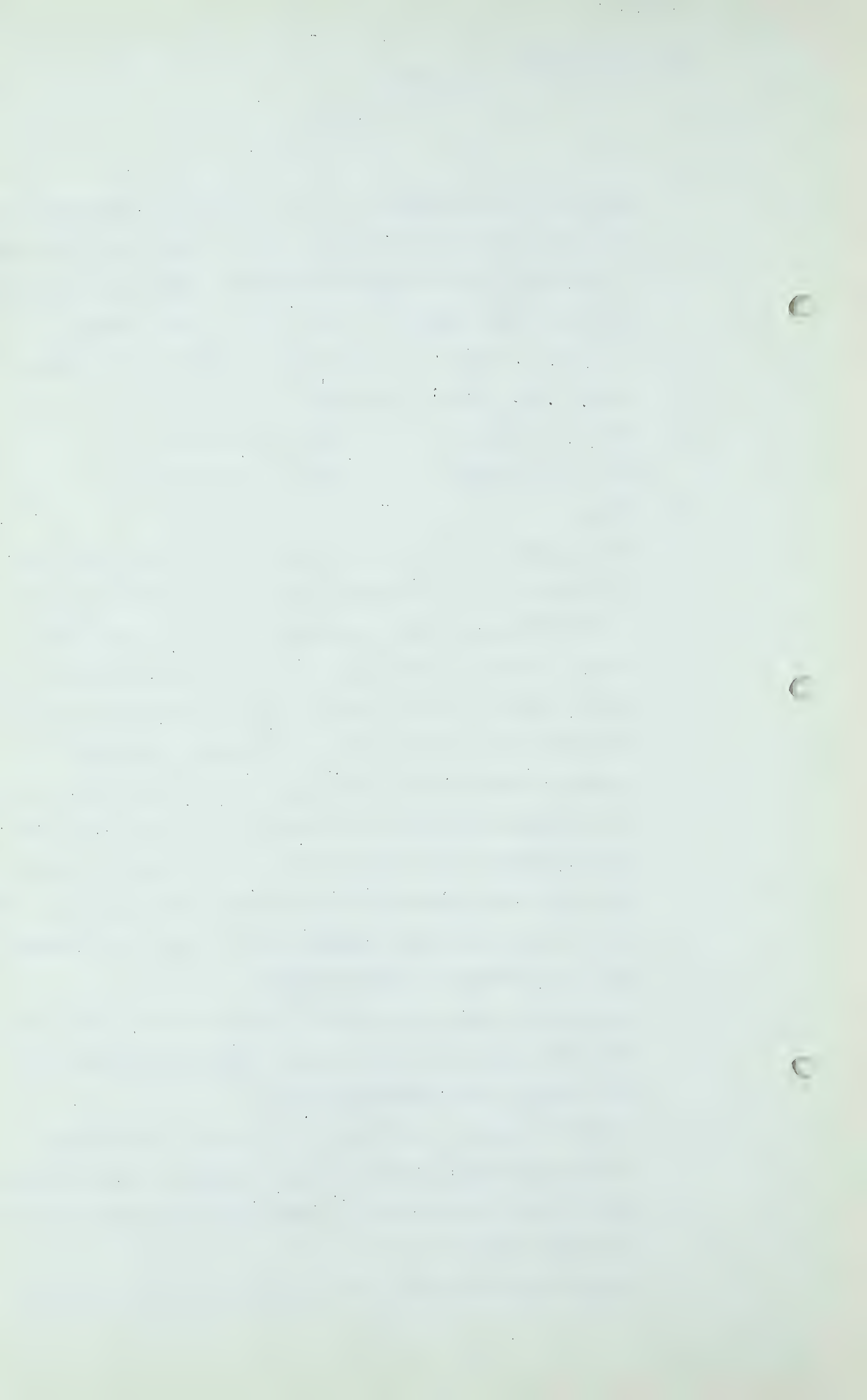
Q All I want to ask you is whether or not that same conclusion could be arrived at as a result of cheap gas?

A I think there are other problems involved, Mr. Smith, in the industrial development of an area and I would not want to imply by that statement that that alone was the cause for this move of industrial power. But as an example of what I have said, and to illustrate that point, the aluminum industry is moving in very rapidly to the Pacific north west because they use a tremendous amount of electricity and desire that cheap electric power. So much so that they are bringing their bauxite all across the United States to those plants.

Q I am glad to hear you say that because others have said that cheap power or gas does not have any influence on the location of industrial plants?

A I think it does. But there is of course the problem of economic transportation also, and all of those factors that go into the question of any industry going into any particular area.

Q But generally speaking, if, in your evidence, you said



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instead of "as a result of this cheap electricity" you used the words "as a result of this cheap gas," would you expect a somewhat similar industrial growth in the Province of Alberta?

A I think it attracts very definitely various industries.

Q Some of these people previously have sort of given a percentage idea about the question of cheap gas and cheap power and cheap anything of that kind. Do you know what I mean?

A Yes.

Q Can you help us in Alberta with respect to that?

A No, I do not feel qualified to make such an estimate. I would hesitate to go further than to state that it undoubtedly does attract industry to the area.

Q One other question. Is there any contract that this Board has not got in front of it? You have three companies of which you are an officer, I think, probably of them all. Is there any contract between Prairie Transmission, if I have got the right name, and Prairie Pipe Lines?

A No, sir. Prairie Transmission is owned by Prairie Pipe Lines.

Q And they are all owned by Pacific Northwest?

A Yes, they are all owned by Pacific Northwest.

Q You will probably agree with me, insofar as contracts are concerned, Pacific Northwest controls the situation?

A Yes.

Q In other words, we could tear it up, or you could tear it up rather, put it that way?



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A I would say yes except for the limitation that if the Alberta Board provides for export of gas on the basis of certain contract, and we tear that contract up, it seems to me we would also tear up our right to export natural gas.

Q I think the Board has a lot of power under the Act?

A Yes, sir.

Q But what I am getting at is, as far as this contract, which is part of Exhibit 1, Mr. Fish's submission - -

A Yes, sir.

Q - - that one person controls the situation, Pacific Northwest?

A Pacific Northwest and its stockholders control the situation.

Q And insofar as the contract in Clause 2 there is concerned, aside from the Board, there is no doubt that the company could tear it up or do anything they liked with it?

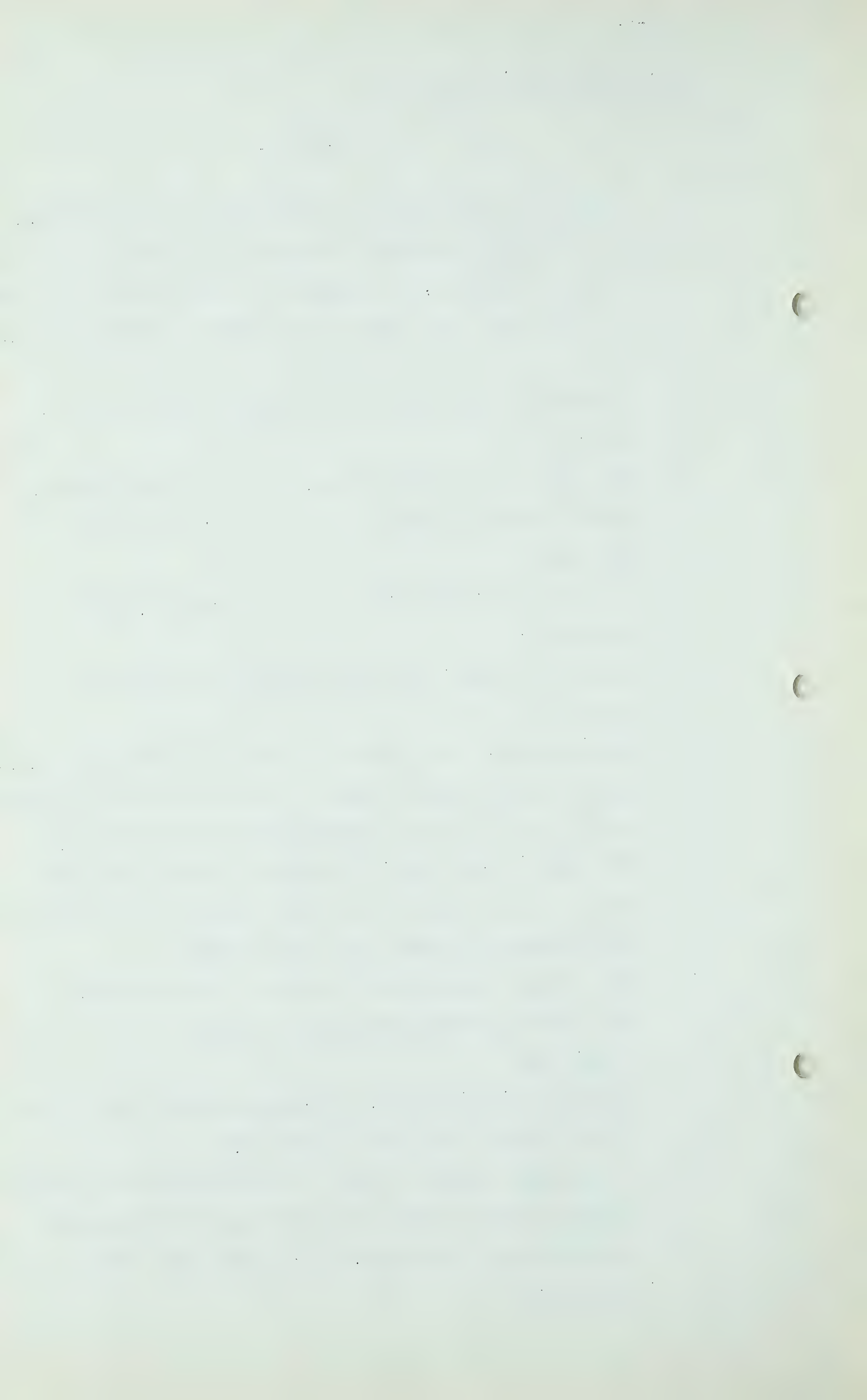
A Yes, that is true but if the Board desired additional clauses in the contract, we will consider those and put any contracts together that they desire.

Q Have you any suggestions to make to the Board as to what should be added if you get a permit?

A In what way?

Q In the way, for instance, of making certain that Clause 2 of the contract would be carried out?

A If the Board desired to make it contingent on the export of gas on other conditions, and those are reasonable conditions for our company, we would accept those conditions.



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Q Suppose the Board said they were interested in the B.C. consumer - whether or not that is a legal question I am not too sure - but supposing they thought they were, have you any suggestions that would help us by way of if you got a permit, making such a condition applicable to you people?

A Well, I feel like this, that that would be a firm contract and the gas export permit would be based upon that and with Prairie - -

Q You understand what I am getting at. There is no use of us talking about Prairie Pipe Lines or Prairie Transmission or Pacific Northwest. You are the whole show, aren't you?

A I am not personally, no.

Q No, I did not mean you personally, but Pacific Northwest?

A Pacific Northwest and its stockholders are.

Q They control and they own the other two companies?

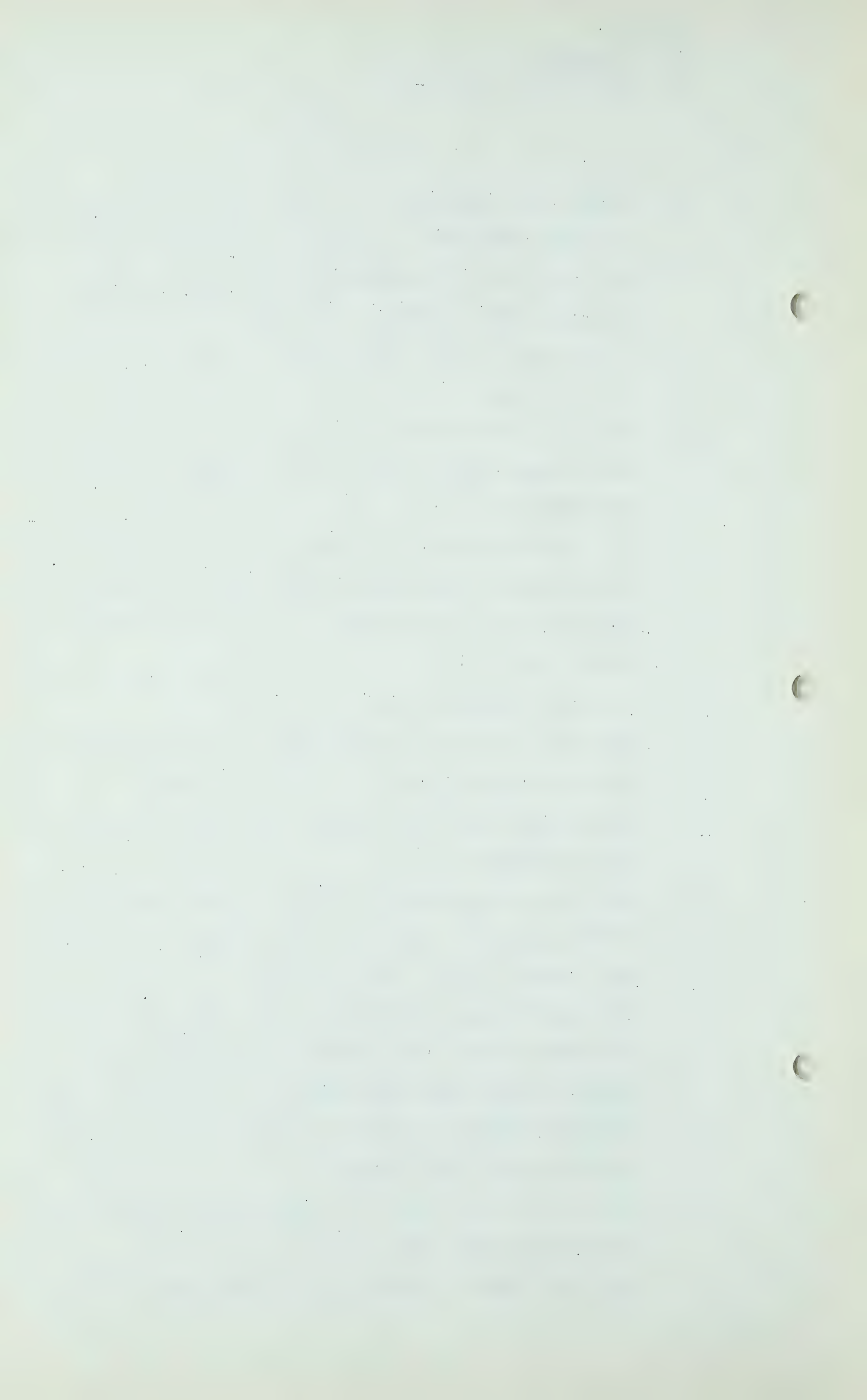
A That is right.

Q Have you any suggestions to make to this Board if you do get a permit to say they could attach a condition with respect to B.C. for instance?

A They might desire to make the point more firm and if they want to make this clause more specific, and a condition that would not hamper the operation of our American company, in any way, we would be very pleased to receive any such change.

Q Have you got any ideas? It seems to me that Smith is making a contract with Smith?

A Well, the export of gas will be on the basis of the



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contract now in existence between these parties.

Q I wonder if you could be of any help to us in suggesting how we could put Clause 2 maybe a little better than it is?

A Only by the conditions and directions which may be laid down by this Board.

Q I want you to go with us a little further?

A If I were in the Board's position I would make it a firm condition under which gas could be exported, but I would also realize the problems of the exporting company.

Q That might be going into the realm of inter-provincial and international matters. Now, I think Mr. Nolan asked you respecting Alberta, its increased population and industrial expansion and so on. Have you made - and I do not mean you personally - have you made any study of that yourself or have you just accepted the Canadian Western Company's figures, what I will call the local distributing company?

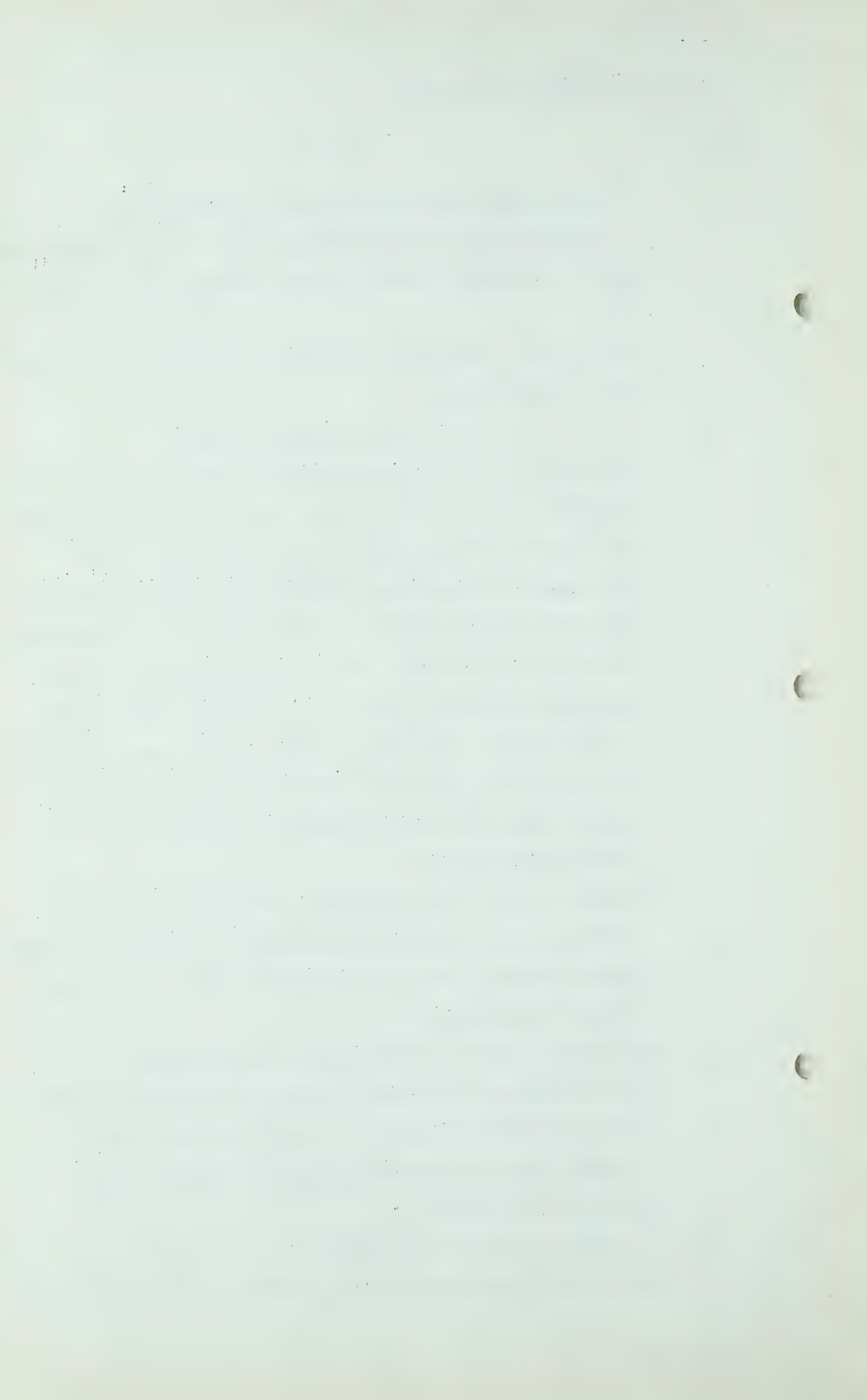
A We have studied the estimates, the staff that we have working on this, of the local utility. We have considered those estimates and have considered them more or less a maximum presentation.

Q And having regard to that, and referring also to page 5 of your submission about the question of cheap electricity, and you agreed with me that cheap gas would result in the same, would you like to up that a little bit?

A No, sir, I would not.

Q You made the study yourselves?

A We noticed that there was an allowance made by the local



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utilities for industrial expansion and normally that would cover various industries. We have laid our basis on a 50 years' supply and if additional industry came into the area that required over and above what we have allowed in this presentation to the Board, it might take away three to five years. But having taken into account the very great industrial growth, it might be say 45 years instead of 50 years. But I think our estimate is a reasonable one for the Board to follow. We consider it is based on a very firm foundation. The only way for any increase would be, over and above that, would be on the basis of industrial consumption. We have allowed for industrial consumption to a certain extent. We have allowed 3 billion a year, as I recall our figures, and over and above that it would merely draw down 4 to 5 years. But in giving the 50 years' estimate, we have given a reasonable estimate.

Q If the industrial expansion exceeds the Gas Company's estimate you will take 5 years off your 50?

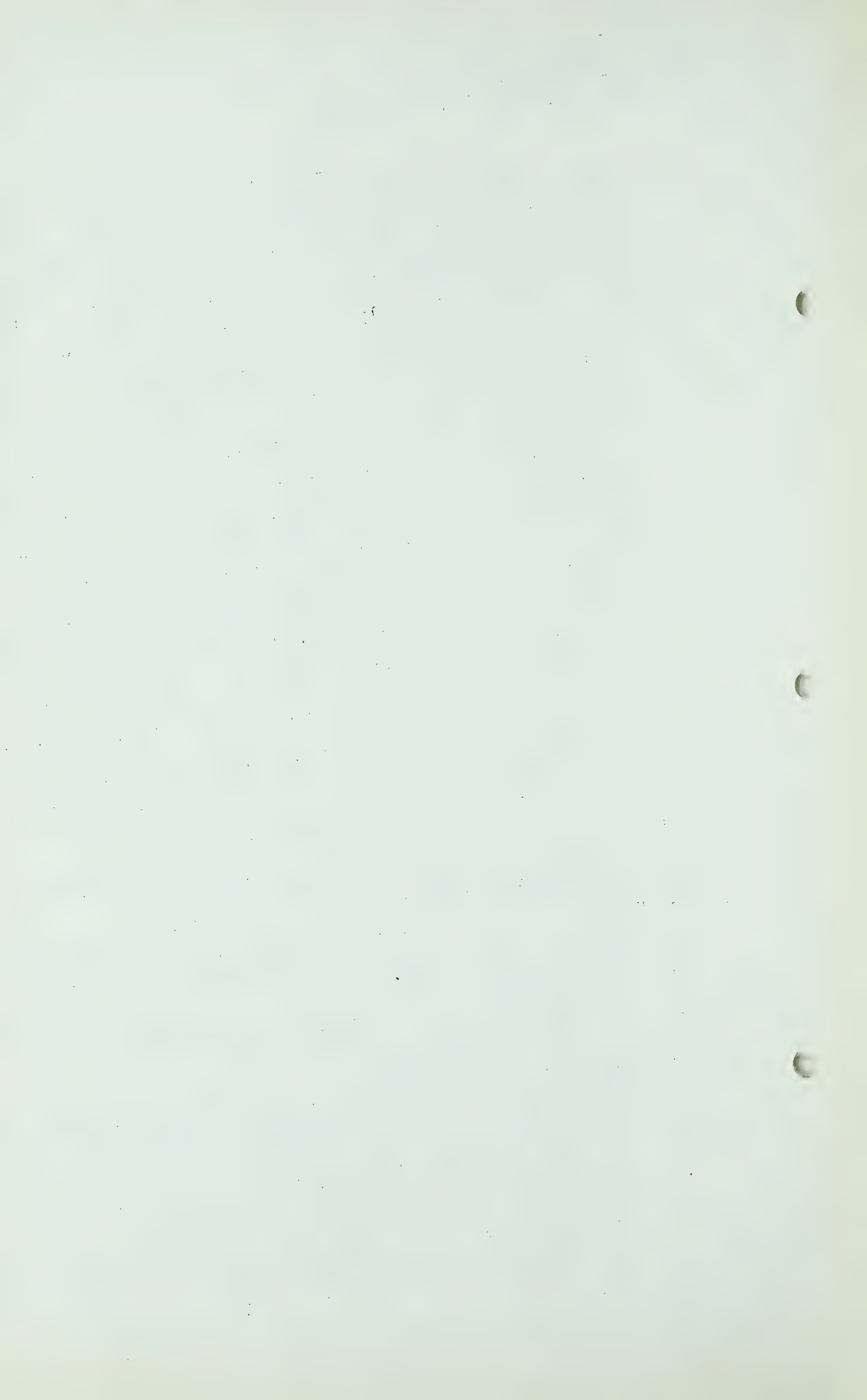
A Approximately that. That is the effect it would have, based on our presentation.

Q Did you read the Edmonton City submission in the Northwest application?

A No, sir, I did not. I thought I had everything available but I did not have that.

Q Then there is no use me asking you, if you have not read it, but I am suggesting that the Gas Company was a little low with respect to Edmonton. But you have not read it and there is no use me asking you about it?

A No. In making our estimates I thought we had everything



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available but apparently we overlooked that one point.

Q On page 6 of your submission - -

A Yes.

Q - - right at the top of the page, and without reading the full sentence, the end of the first sentence is this: "...and the public pronouncements of the various Washington defence officials." Is there anything you can do to help the Board in telling us what those pronouncements are?

A In the appointment of these recent Commissions who are responsible for the distribution of energy, both to industrial and domestic consumers, by the Natural Security Resources Board in Washington, and there have been various pronouncements concerning the Pacific Northwest. I think the strongest indication this Board should have, and which needs no support from me, is the letter from Mr. Howe, in which he referred to the Munitions Board in Washington.

Q And I take it this was prepared after that letter was made available to the Board?

A This was made before that was made available. There are many references to such here.

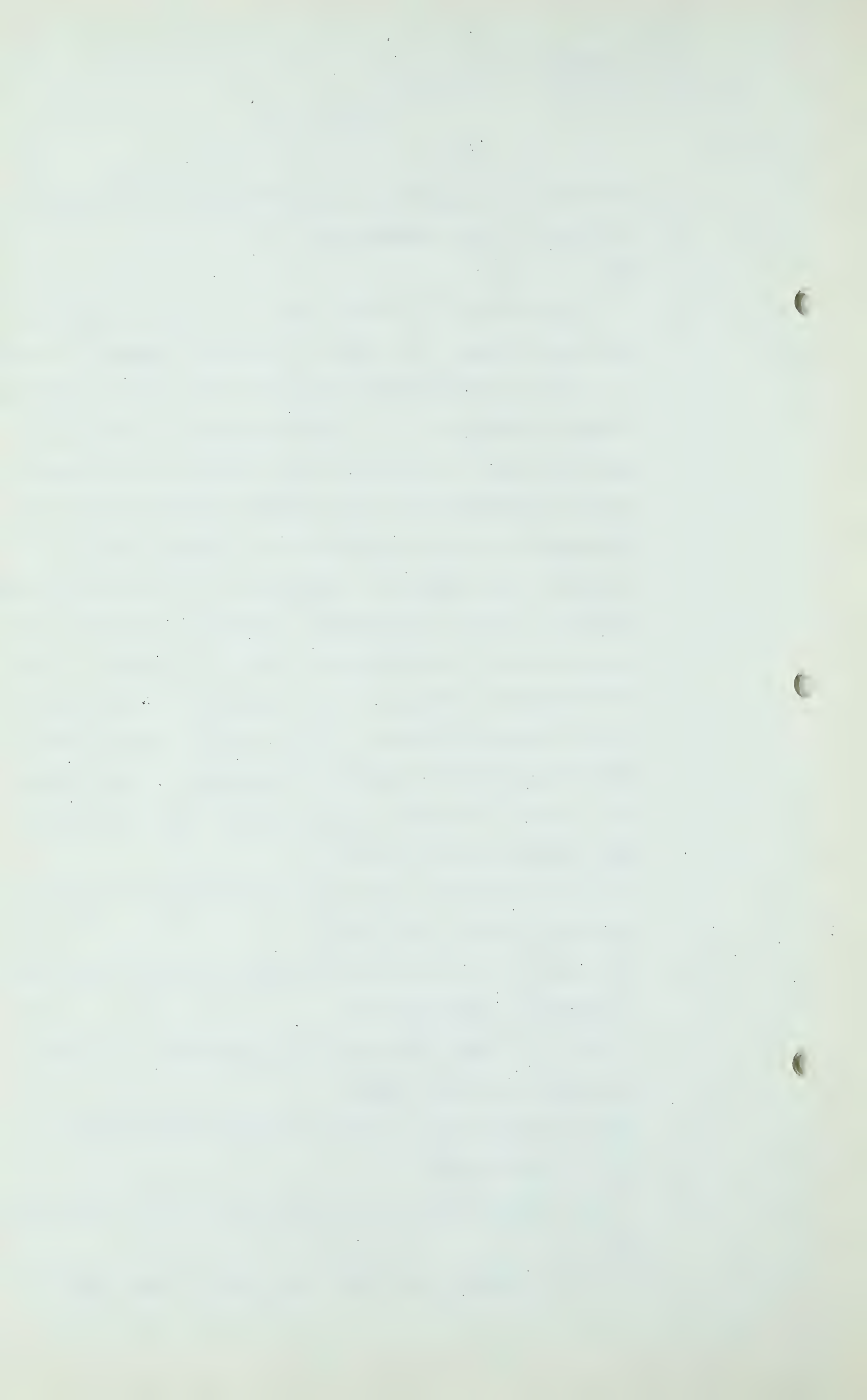
Q All I want is your help as to where we should find them. In newspaper publications?

A I think you could find them in the newspapers on many occasions in recent months.

Q But you cannot tell us where we could find any one public announcement?

A I would refrain from pointing out any definite announcement.

Q Is there anything like this blue book you had this



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morning?

A No.

Q Do you understand what I am getting at?

A Yes, but I do not have available right now those announcements to which I referred, but observation of the newspapers back over the last three or four months will reveal many such statements. Everyone is aware of that need. But some of these pronouncements have been carried in the papers.

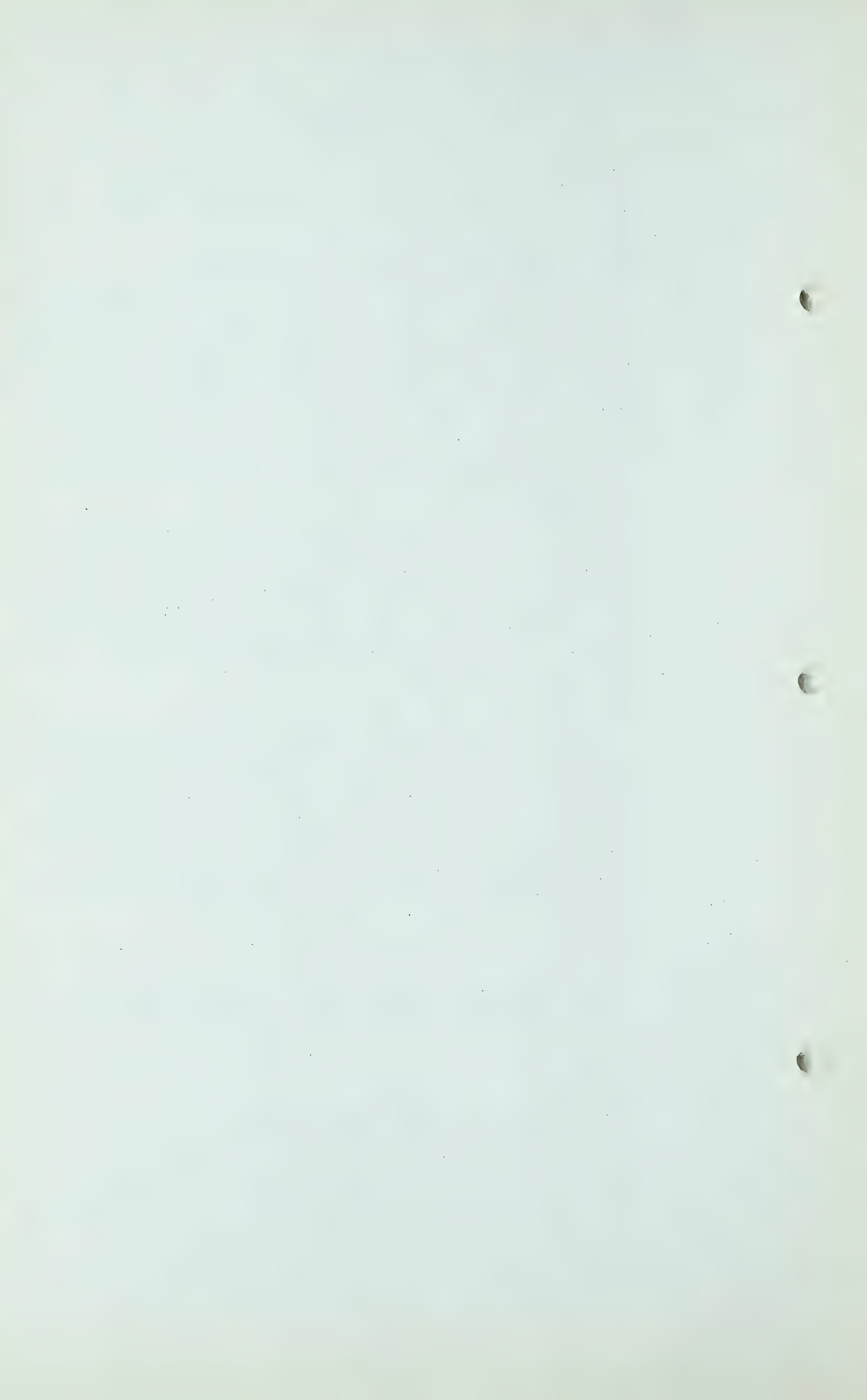
Q Now there was one witness who said he did not think we should exercise our powers under Section 9. He put it in the way I think - or I put it that I should rather freeze to death than should someone in Seattle. You do not agree with that?

A I think if you make the volume of 100 million cubic feet a day as dedicated to the Pacific market and that market becomes dependent upon it, you will have cold homes over there if you ever shut it off, and I think the Alberta Commission would not be in favor of doing that either.

Q Except if I freeze to death?

A I will not speak for the Board and its attitude on that.

(Go to page 307.)



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Q In the last page of your submission, Mr. Herring, the very last page. Maybe we had better start at the bottom of page 8 with the following sentence:

"We are fully aware of the problems confronting this Board, and are sympathetic to the desire on the part of this Board to protect the domestic supplies of Alberta....."

I take it you mean "domestic" in a broad sense?

A Yes.

Q No distinction between "domestic" and "commercial"?

A No.

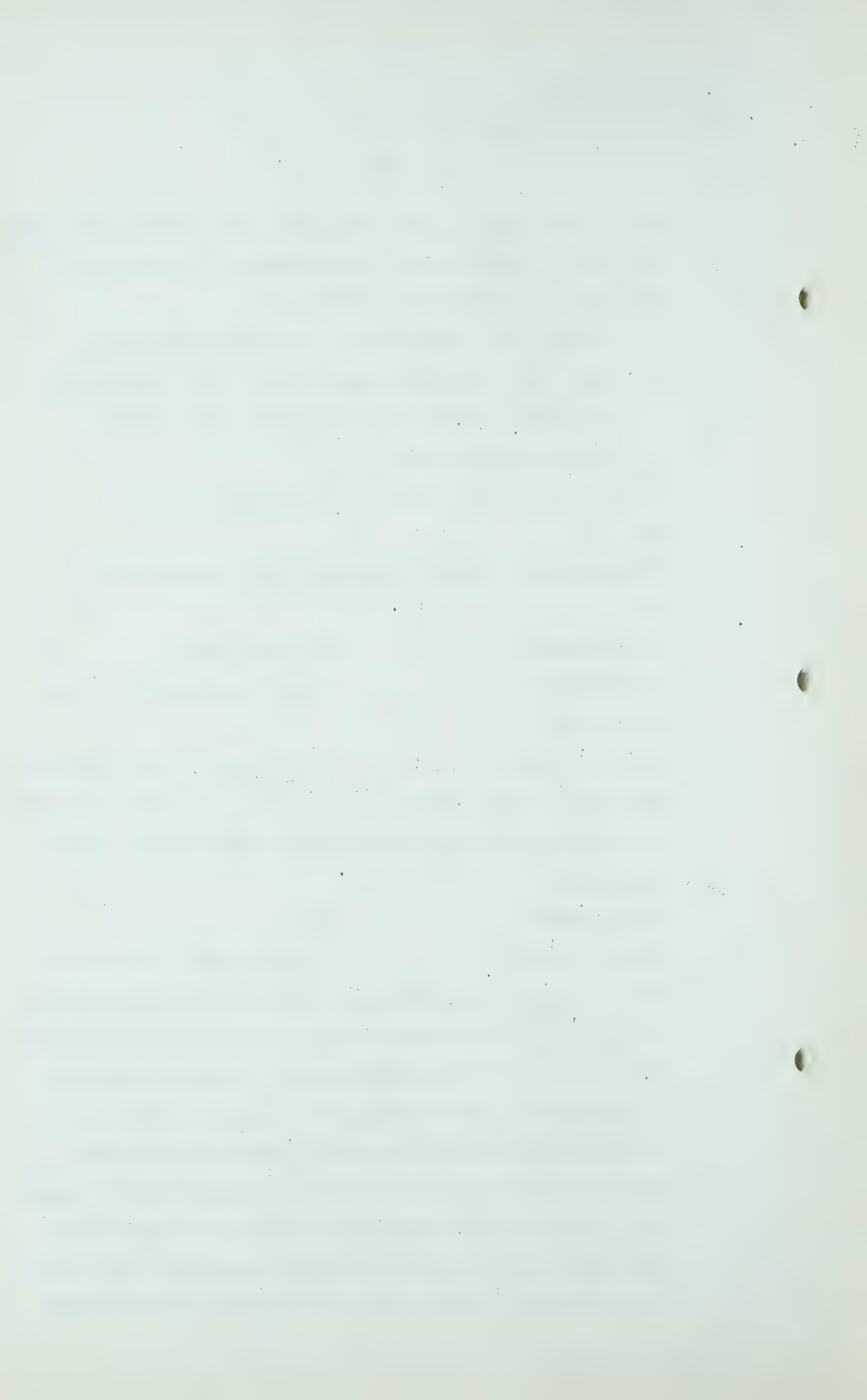
THE CHAIRMAN: Mr. Martland?

MR. MARTLAND: I had completed my cross-examination.

MR. S.B. SMITH: I have one or two questions. They will be very brief and I do not care whether I go now or after the Board has finished its examination. Shall I proceed now?

THE CHAIRMAN: Yes.

Q MR. S.B. SMITH: I do not want to go into this in detail. Mr. Smith was asking you about the City of Edmonton's presentation which you indicated you had not read. I have it here before me and I hope I summarize at least part of it correctly when they say they express some concern as to whether or not Viking-Kinsella was sufficient for Edmonton's purposes, and went on to suggest that possibly Leduc should be looked to but there were some difficulties in getting regular supplies from Leduc, and after that, at page 6 of the Appendix signed by Mr.



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Menzies, the City Commissioner of Edmonton:

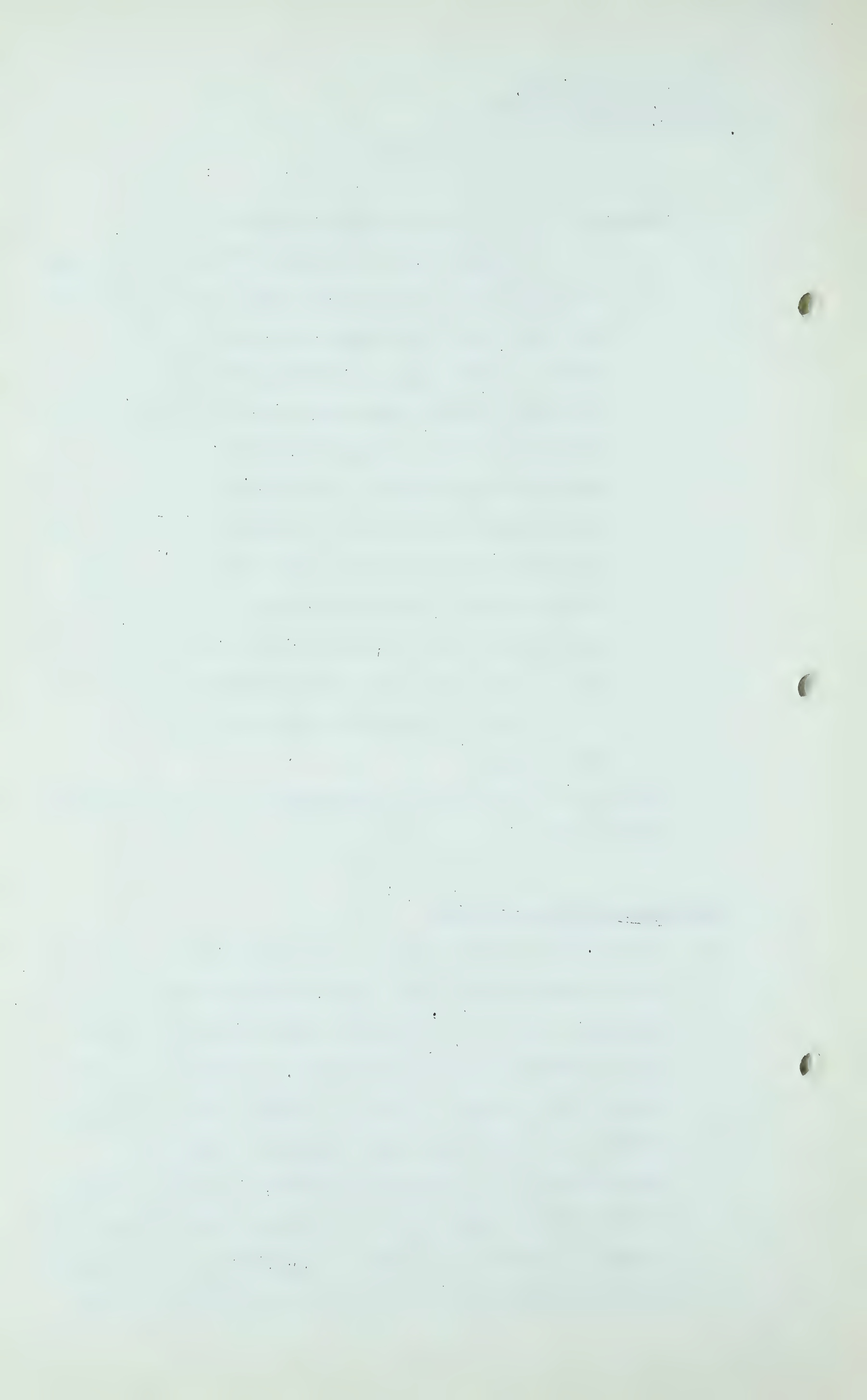
" We suggest that the future Edmonton consumer of natural gas is in a much less assured position than would at first appear and that to give Edmonton fifty years protection for gas supply at reasonable rates will almost certainly require an additional field, perhaps Morinville field, to be earmarked for Edmonton in addition. If this is so, and we invite the Board to examine the matter most carefully, it seems to us that the gas-bearing neighbourhood of Edmonton in all directions should be dedicated for consumers of the greater Edmonton area so that peak load periods 25 years from now do not find us piping in gas from hundreds of miles away."

Are you in any way in disagreement with that statement?

A Not at all.

EXAMINATION BY DR. GOVIER:

Q Mr. Herring, I would like to get your further views on two or three matters that were discussed earlier this morning. First, in connection with the grid system. Both you and Mr. Fish have made the position of your company very clear, I think. I would like to ask you, however, to what extent you believe it might be advantageous to do advanced planning on a grid system at the present time, that is, to what extent should we attempt to foresee the future requirements with respect to gas gathering in the Province and provide for that



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in advance?

- A Dr. Govier, in answer to that question it would be my opinion that the initial requirements, that is, the present-day requirements of the local utilities and an initial exported volume, considering that volume to be relatively small, would be severely hampered in consumer cost price by any type of initial cost in a grid system. I believe, however, that a study on the part of this Board as the local utilities begin to require more gas, and from my limited knowledge of the two major utilities, in the next few years they will require additional extensions to their present gathering lines, to see if additional export gas should be available at that time and if the gathering of gas both by the local utility and the exporting company at that time can be coordinated and divide the cost where it would not be excessive for either group. The Board itself would be in a position to survey that requirement and advance accordingly. It would be my impression it would be very difficult for the Board to advance very far in a grid system program at the present time because these fields which are proven today are primarily within the range of present gas gathering lines with the exception of Pincher Creek. Now, as additional fields come in and are brought in on a large scale proven reserve basis, it may well be with this co-operative arrangement under the supervision of the Board with utility and export lines would benefit both parties. But I can not see at the moment an expenditure of any sizable amount for the gathering of gas either for the local companies or the export lines with a view in mind

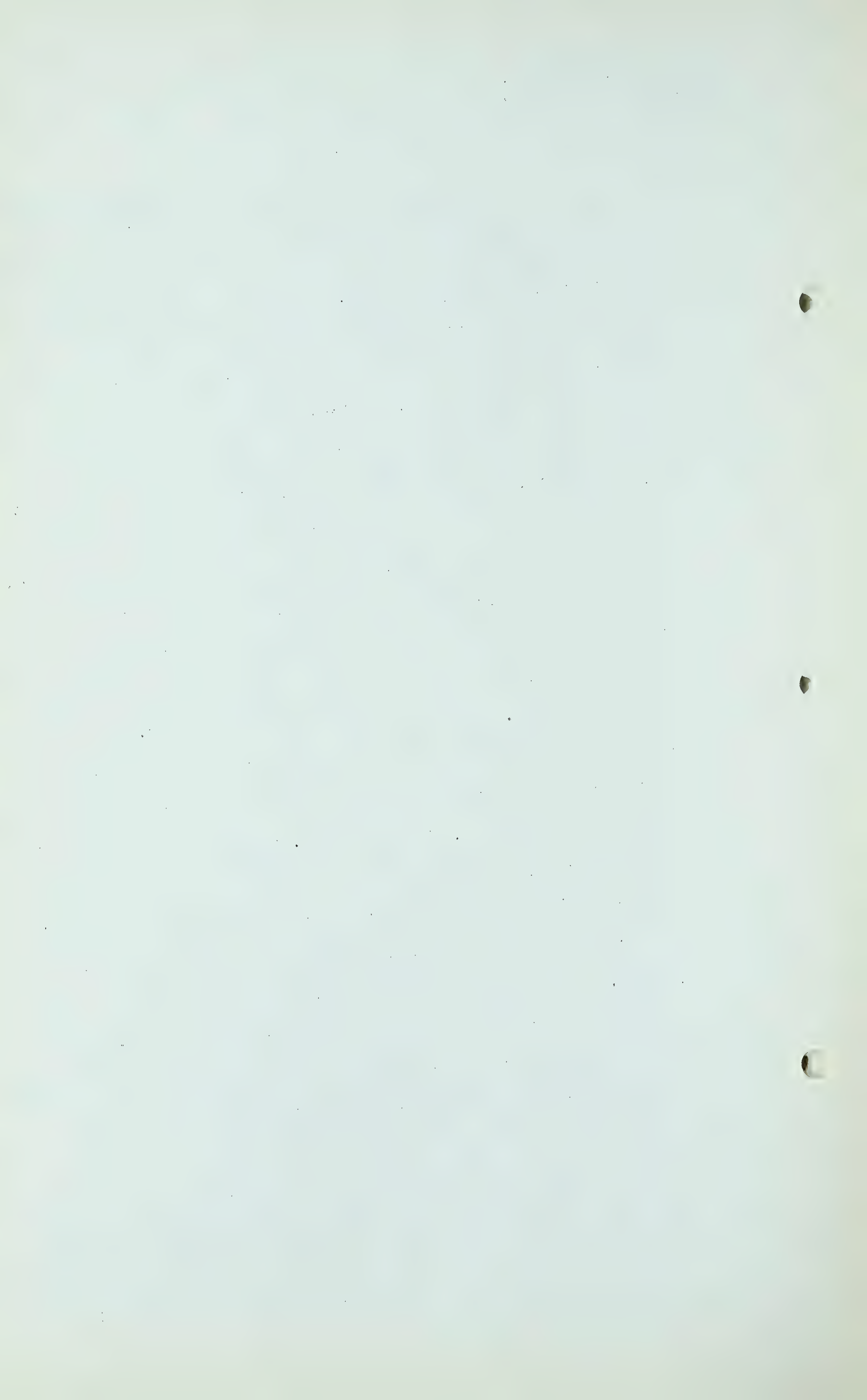


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of building - - by that I mean building in a capacity great enough to serve both - - without an excessive cost to the consumer price of gas. Now, we are very sympathetic to the Board's point of view, and I am sure I am right on this point, to gather all of the gas that can possibly be gathered in the most economical way possible for the benefit of the entire Province and the development of all areas of the Province, but that must be tempered by consumer cost. And until those reserves are established and the various gathering lines and exporting lines begin to get in there, the most economical way of gathering that and whether it can be done in the form of a grid system on a cooperative basis or not, would have to await that moment for an actual clear decision. That is rather a vague answer, I guess, but it is consistent with our point on this matter. The thing that has confronted us throughout the consideration of a grid system is, for instance, a 100 million cubic feet of gas per day and any type of a gathering line with sufficient capacity to meet growth as we move along would place an excessive cost in transporting that gas on our exported volume. If that were shared with local utilities it would increase the cost of gas to those local utilities. That is the thing that has confronted us and made us feel that an immediate grid system would be uneconomical and it is very difficult to plan until the reserve began to grow and develop over and above what you now have.

Q And you would suggest then that any planning that is done would be just in the nature of pencil-and-paper planning perhaps by this Board and the various utilities and possibly



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export companies?

A I would, yes, sir.

Q You do not believe then in the establishment of a grid company?

A At this time, no, sir.

Q Thanks on that point, Mr. Herring. I want now to discuss with you this question of deliverability a little bit and I thought we might lead our way into it rather gently.

A All right, sir.

Q Now, both you and Mr. Fish have indicated to us just what you feel should be the interpretation of protection for this Province for 40 to 50 years. And if you excuse me for repeating what I think is your view, it is substantially this, that your company, believing that proven reserves should be in sight to meet the present and future requirements of the Province for 40 to 50 years, and that those reserves should be reserves which could economically be made deliverable as the market in this area required it. That is about it, isn't it?

A Yes.

Q Well, I think all of us have slightly different views as to what proven reserves constitute. The field of difference is gradually narrowing and I think we pretty well all agree on what constitutes proven reserves. This question of deliverability, though, still seems to be a difficult one. You indicated this morning, Mr. Herring, that you did not quite see why the Board should be concerned with the individual well deliverability, but you went on to say that your company was going to submit



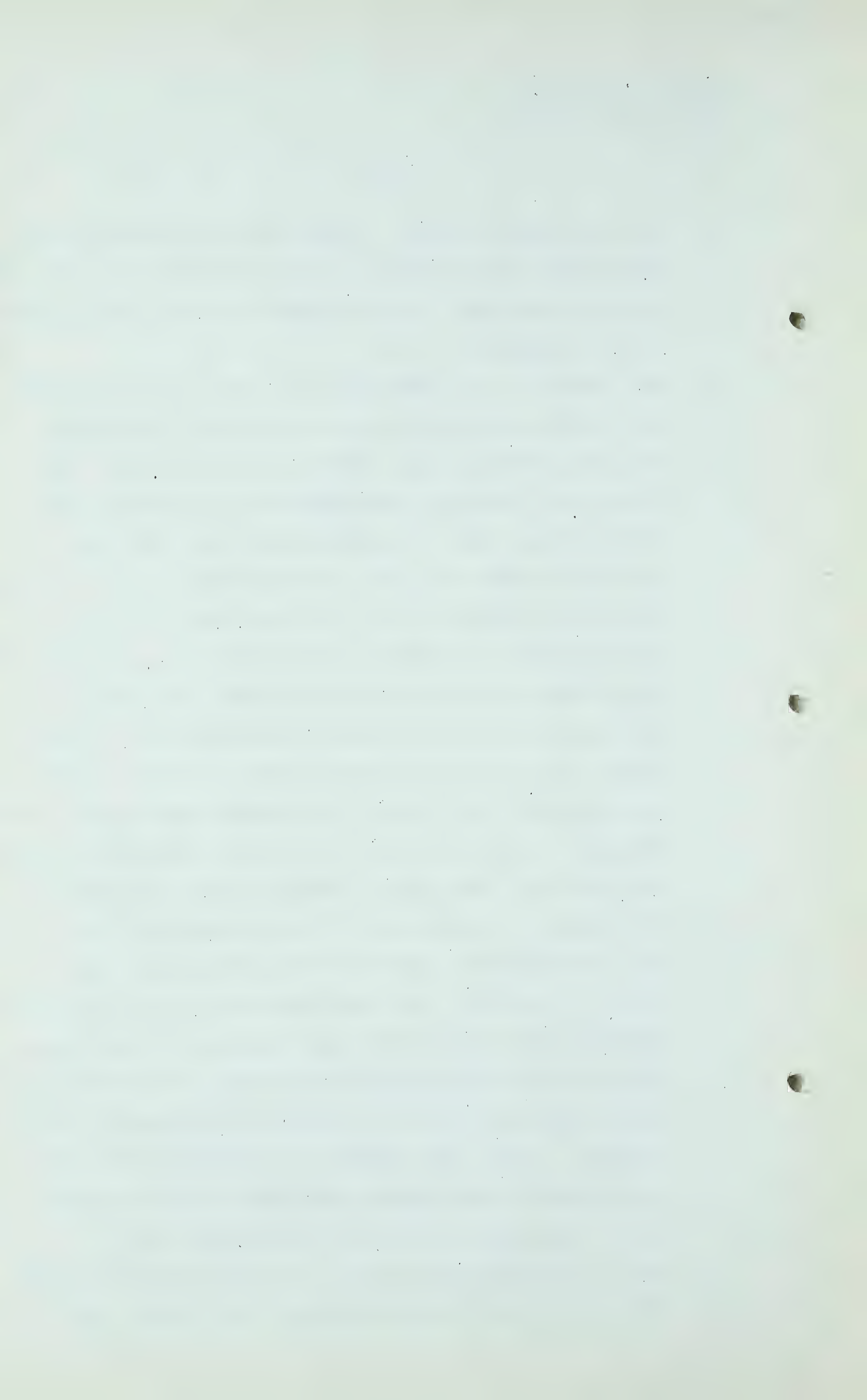
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that information anyway. Well now, the last thing the Board wants to do is have a lot of information it does not need, and that may not be pertinent to this. Did you want to say something?

A Yes, Doctor, I qualified that this morning. The problem you brought up yesterday was one we had not considered thoroughly before, and I think is very pertinent. What we had not considered was present day deliverability of those fields. Now, in estimating that gas that will be deliverable from the proven reserves during those 50 years of dedicated supply to the local utilities, when that deliverability has reached its peak point in servicing the requirements of the local area, you want to know that those proven reserves can give them enough gas to supply them at that peak point providing the pipe line capacity is available. Now, we have to consider present day deliverability. It would be very difficult to estimate that peak deliverability that will be reached during the course of this demand. You have all of these fields available to you and undoubtedly the deliverability now would be great enough to service it and could be developed rapidly as you required more, but you will reach a point in this 50-year period when the deliverability may reach its maximum point and you want to know - - I would like to clarify that in my mind - - that that maximum deliverability will reach a point equal to that maximum peak demand that you might expect from these local utilities down the road.

Q That is certainly part of it. I am sure that we are completely in accord on the meaning of this thing. Let us



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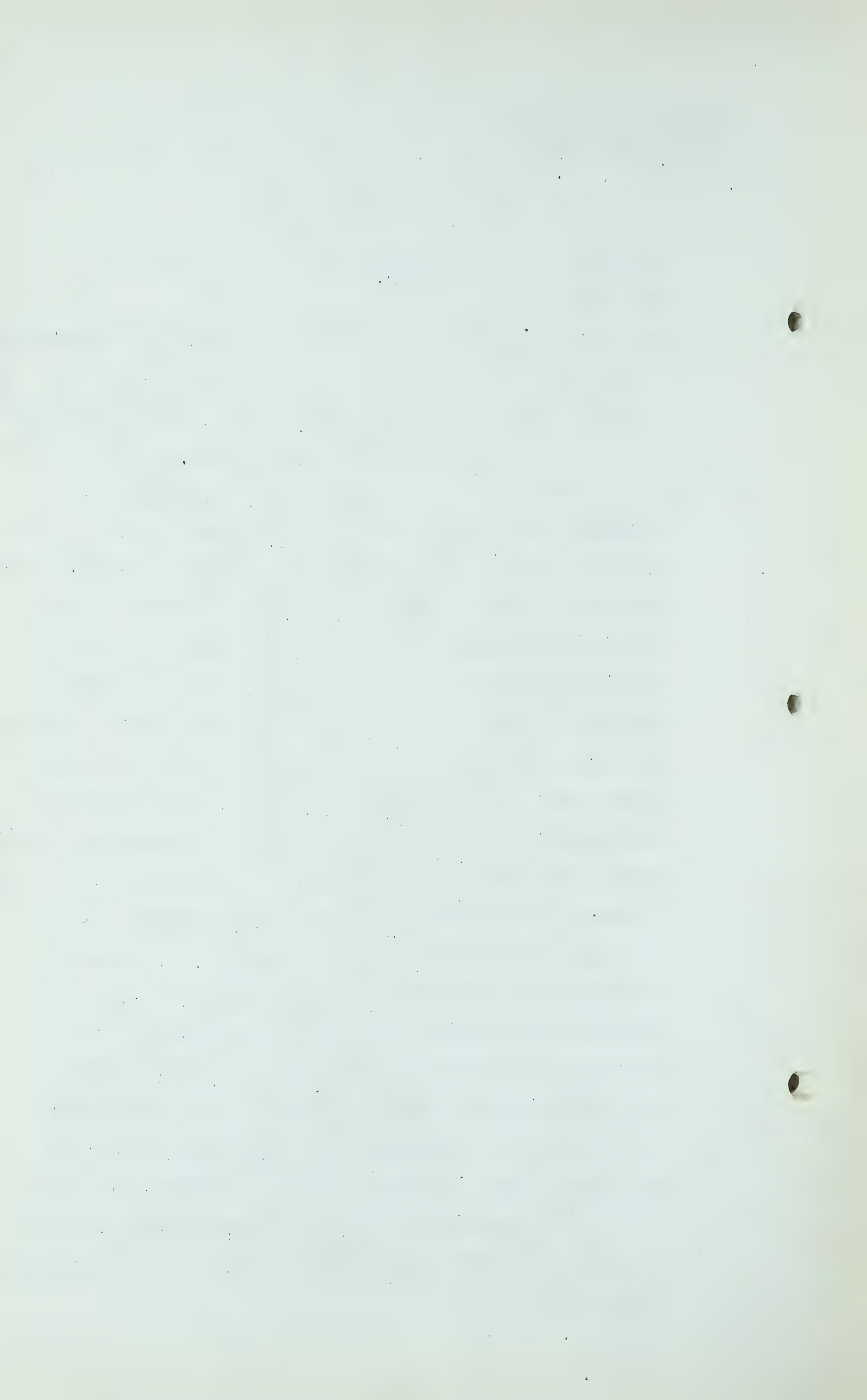
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explore it a little further.

A All right, sir.

Q The way the Board sees this thing is that if we are going to be sure that the future requirements of the Province can be met in the way that you and Mr. Fish suggest they should be met, then we have to know several things. One of them is the market for gas in the Province, and that is a separate and very difficult problem. Another one is how much reserves we have and that is a separate problem. Then we have to know how the reserves can be brought to the market and whether the reserves can be made available to the market not only during the summer but also during the winter. In other words, we have to know that the reserves can meet the peak day requirement of the market in any given year. In this particular area there is quite a difference between the peak day and the average day requirements, and I think the Board will be very reluctant to use a rule of thumb approach on the problem because of the fact that the situation here is unusual. We would like to feel that the applicant before us could indicate to the Board how the present and future requirements of the Province can actually be met, that is, from what field, from what number of wells it would be required in the field and so on, along with the requirements for the proposed export. Although you made a reference to the meeting of peak deliverability and peak market, I am not sure you meant the same sort of thing I have been talking about. Did you?

A Yes.



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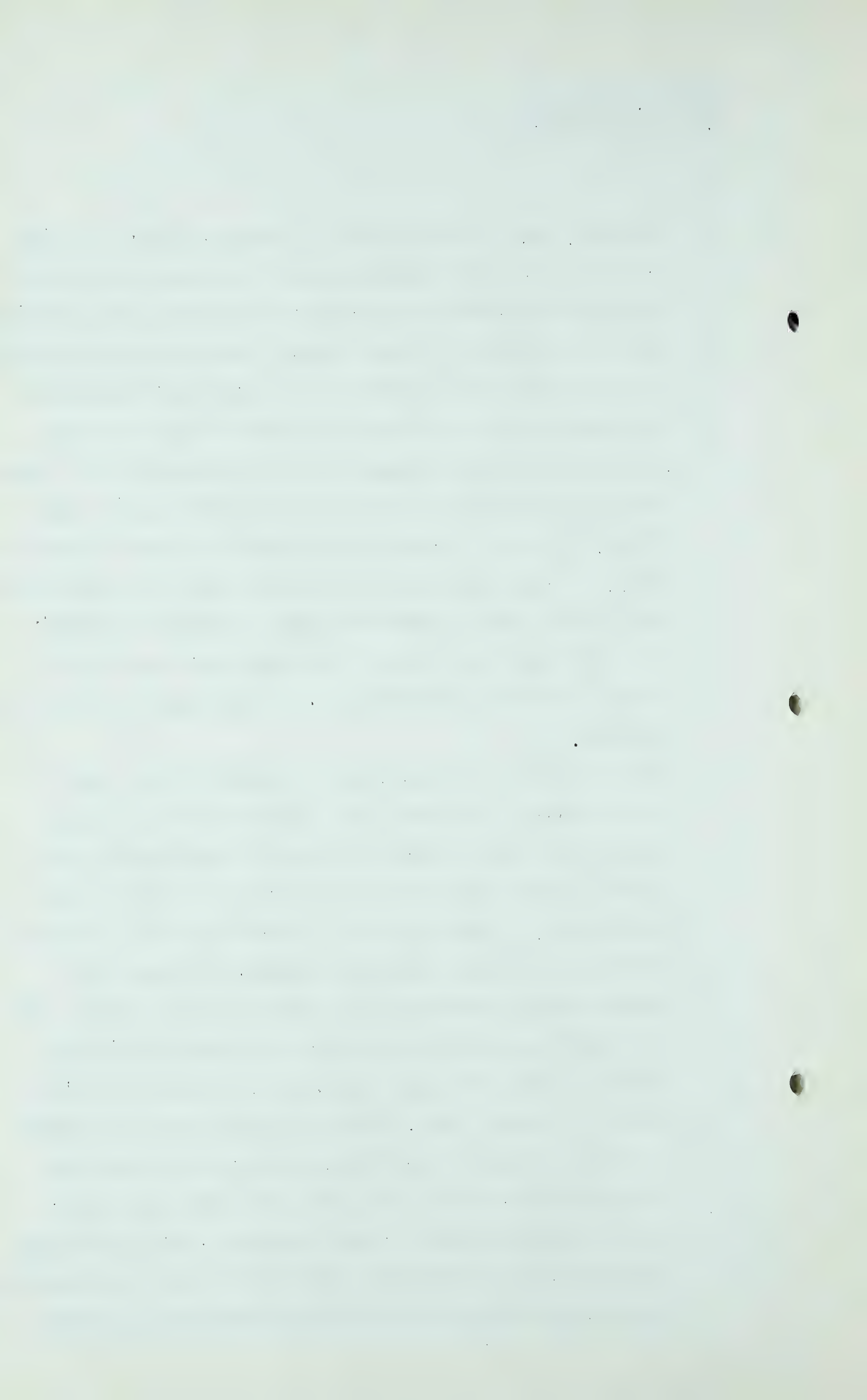
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Q Well then, Mr. Herring let me get this straight. Do you still feel that the Board need not be concerned with the per well deliverability in these various important fields?

A As it now stands. In other words, present day deliverability does not affect the proven reserves that are available to the market but in studying that peak deliverability as compared to the peak demand you have naturally to go through the entire procedure of present deliverable gas in those fields. We will be ready on the 30th with that information.

Q Quite. I was wondering if you could suggest an alternative way in which that information might be brought together. It seems to me that you felt that the Board was almost asking too much in that respect. I just wanted to get that straight.

A Similar projects to that which you have in Bow Island would naturally increase your deliverability as you go along, and if the reserves are great enough and are calculated on the basis of those reserves which can be made deliverable, if you run into a problem later on of deliverability to meet this peak requirement, you would have depleted various sands in the areas adjacent to those pipelines and in my opinion would have available additional storage during the summer time, and you would draw on it during the winter time. That would meet peaking demands. Of course, I am not faced with the serious problem that you gentlemen are but I feel that the local utilities, by the proper handling of their problems, as long as they have the reserves available that could be made deliverable, and had those various sand sections available for summer



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storage, could undoubtedly get any peak requirements that they might encounter.

Q Are you speaking both from a technical and economical point of view when you say that?

A To my limited ability to do so. I would not in any way attempt to qualify myself to speak on such matters except in a general opinion. Recognizing the concern of the Board, we would like to present testimony on the 30th on that matter and to place everything we can bring to bear at your disposal for that problem.

Q There is another related matter I wanted your opinion on, Mr. Herring. We have had expressed at these Hearings the view that certain fields, for example, Pincher Creek and Jumping Pound, because of the high investment in drilling wells and the probably high investment in processing plants, would almost out of economic necessity have to be operated at a very steady load. Have you had any experience along that line or could you comment on that?

A No, sir. I would prefer that the man we present for testimony on the 30th develop that point with you because he could give expert testimony on such a matter. Pincher Creek is a very definite individual field and would have to be treated as such, I am certain.

Q It would seem if that were the case it may have a serious effect on this deliverability question?

A Yes, it would. I would prefer the man we present on the 30th to testify on that. I think he would be more helpful to the Board.

Q THE CHAIRMAN: Mr. Herring, you mentioned

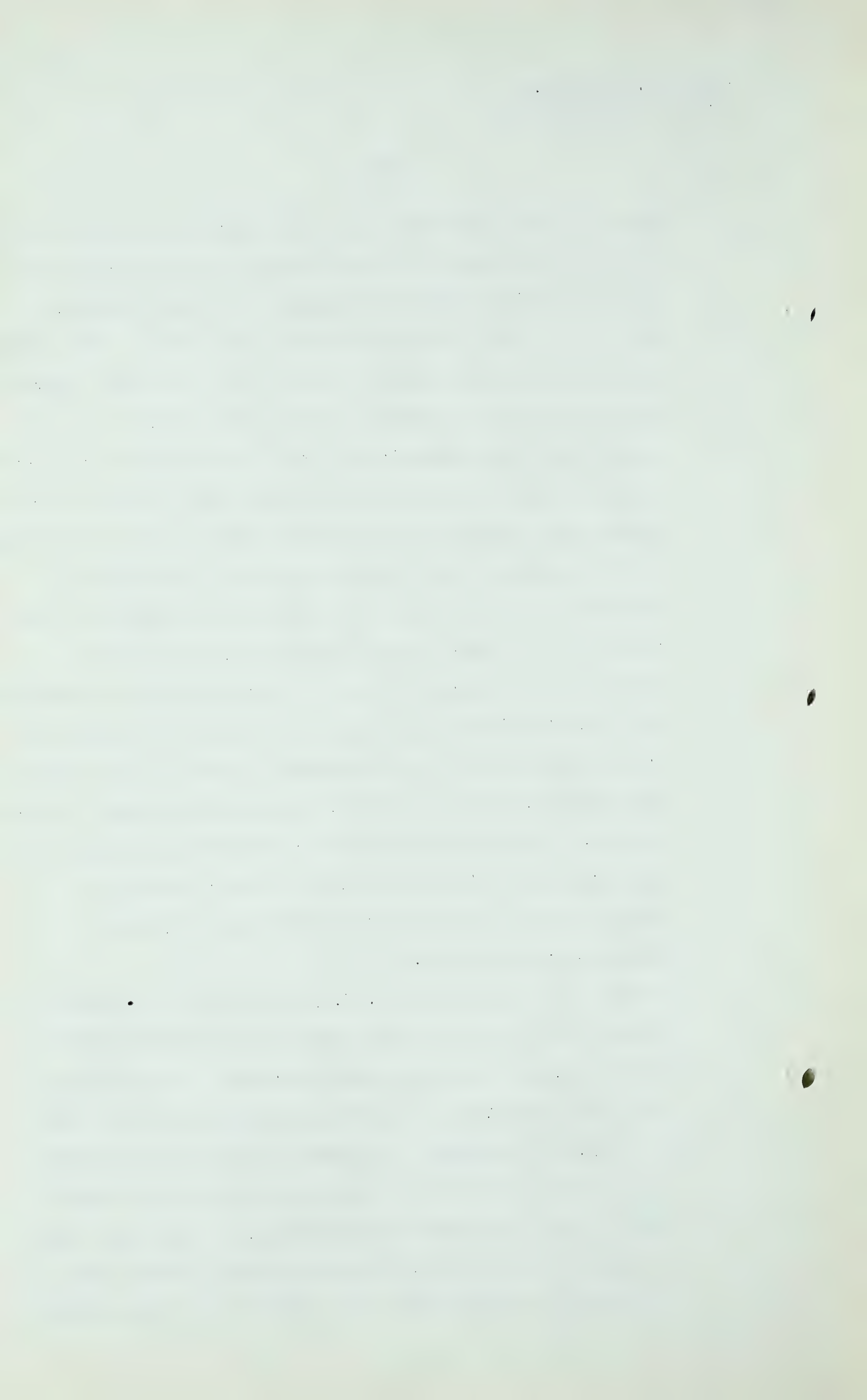
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there that this problem of the peak demands might be met by storage fields and that local companies with gas reserves could meet their peaks by arranging for summer storage. Should the local utilities bear all the cost of this storing of gas to get peak demands? Should not the export company be required to at least bear their share of it?

A I would not feel that an investment on the part of the local company in such storage as they moved down the road and required such storage would add materially to the cost of gas to the consumer. If it were necessary to arrange a tremendous storage or for both the export company and the local utility, then I would certainly favour a joint venture on the project, or if you reach a point in development in the Province here where those lines are beginning to cross and you have complementary actions on the part of both companies, and they have available withdrawal from such a storage, then I would suggest a cooperative financing of such a project. But I still can not see an excessive burden on one line or the other as long as they are separate operating units.

Q On page 5 of your Exhibit No. 6, you mention dedication of 100 million feet per day for Prairie Pipe Lines Limited for 20 years. Does that mean an average of 100 million cubic feet per day? For instance, suppose that the City of Calgary, for example, required 50 million a day sometime in the next 10 or 15 years from the Pincher Creek Field to meet that peak day requirement, would your line be satisfied to take say 50 million a day rather than 100 million a day and have that paid up at a later date?



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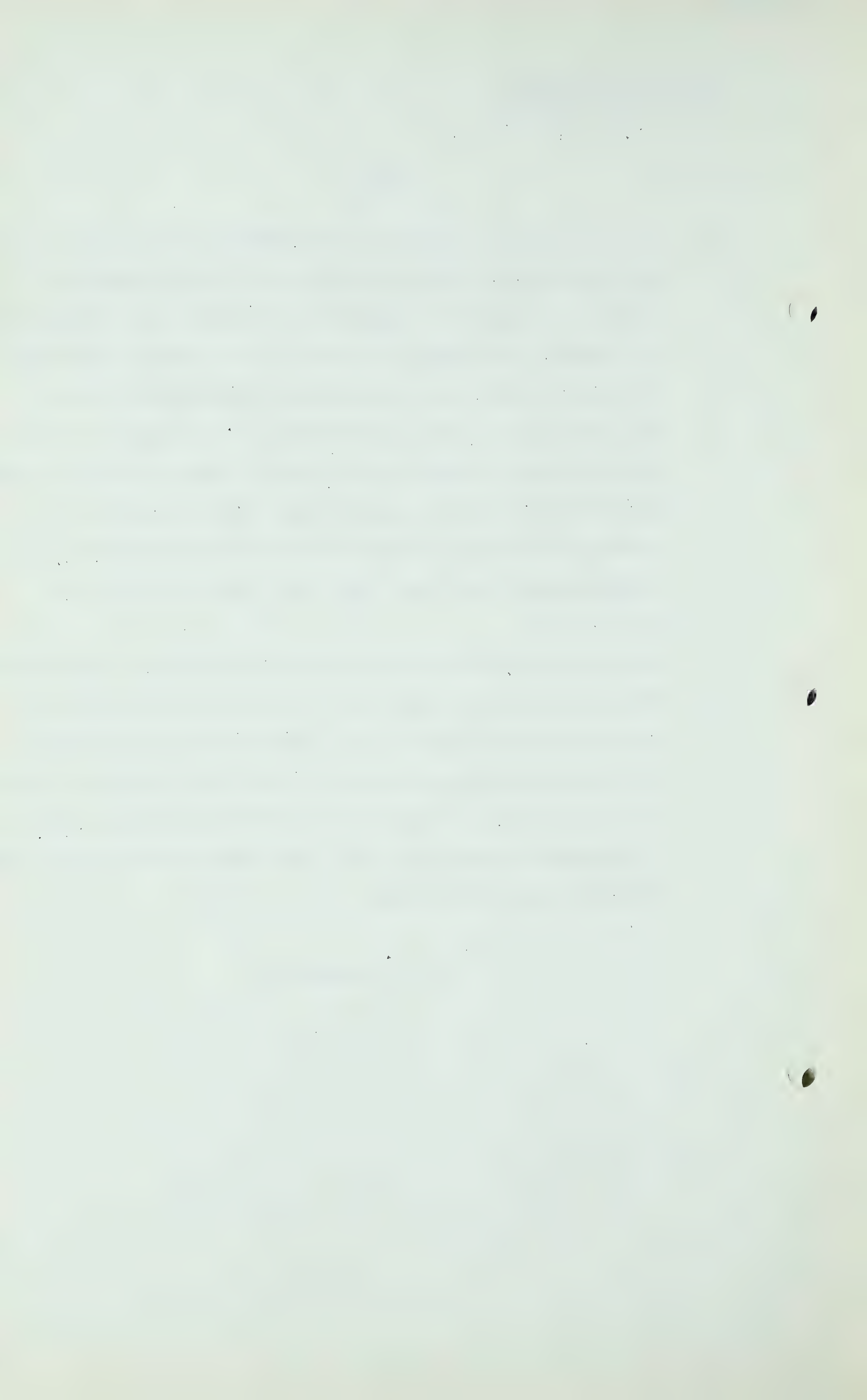
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A In designing our system we are capable of moving so much gas out from the American market or from the American source. We would be required to meet the full demands of our market area during that period. We would be willing to cooperate with the Board in meeting the Provincial requirements in every possible way, by packing our line at various times to meet our full market requirements. On the basis of 100 million a day we can certainly pack to a certain extent but I would refrain from stating that our company would take less than that, which would be the coldest days.

Q We had about six weeks last winter of about 20 below weather.

A We are entering a field that would be very difficult to present to the Federal Power Commission satisfactorily. If we are dedicating this gas to the use of British Columbia it would be very difficult to restrict that flow except on a cooperative basis as it met the entire system and we would certainly want to do that.

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Q I realize that here you are using Pincher Creek as more of an illustration, but had you given any consideration to the problem at Pincher Creek, of establishing a processing plant there for gas, and that the deliverability of the field might be limited by the size of the plant in operation?

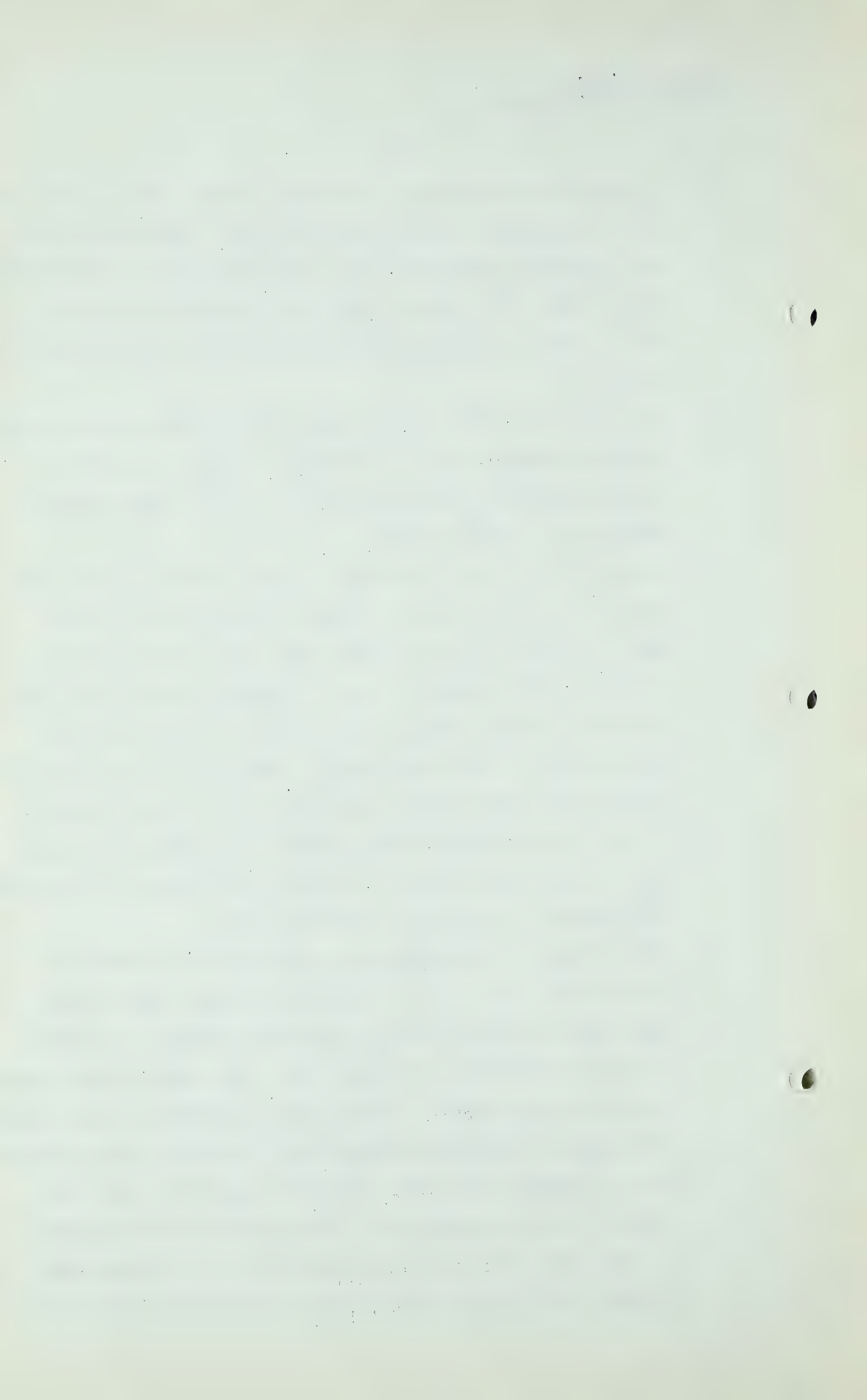
A Yes, sir, we have. And we have in our statement to the Gulf Company explained that we would be willing to build a plant ourselves and operate it, or buy the gas that was processed in such a plant.

Q Should you find as the result of more study that you are going to present to us on October 30th that you would have to build a plant greater than they had thought of doing, in other words, if you are going to meet your 100 million, and you require in ten years 50 million a day, which would be our peak demand, would you be prepared to build such a plant that would take care of peak demands?

A We had not considered that problem, Mr. McKinnon, but as long as gas can be sold it certainly increases the economic feasibility by building a gasoline plant.

Q That is what I am asking you, would you be prepared to increase the size of the plant just to meet peak loads?

A That would devolve into an economic question. I cannot see why it would not be worked out. You would have a plant to put up with certain volumes during certain months, measure the volume by different months, and you could increase the volume through your plant, and when you could sell the butane and the propanes you could increase the capacity of the plant and reduce the amount when the butanes and propanes would be less marketable, and I think that could



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be worked out.

Q Thanks, Mr. Herring.

MR. D. P. McDONALD: Just one thing I wanted to mention, Mr. Chairman, before Mr. Herring leaves the stand. He referred a number of questions to some other witnesses. I would suggest that after having heard the other witnesses that Mr. Herring be available for cross-examination regarding the points referred to in case it is necessary.

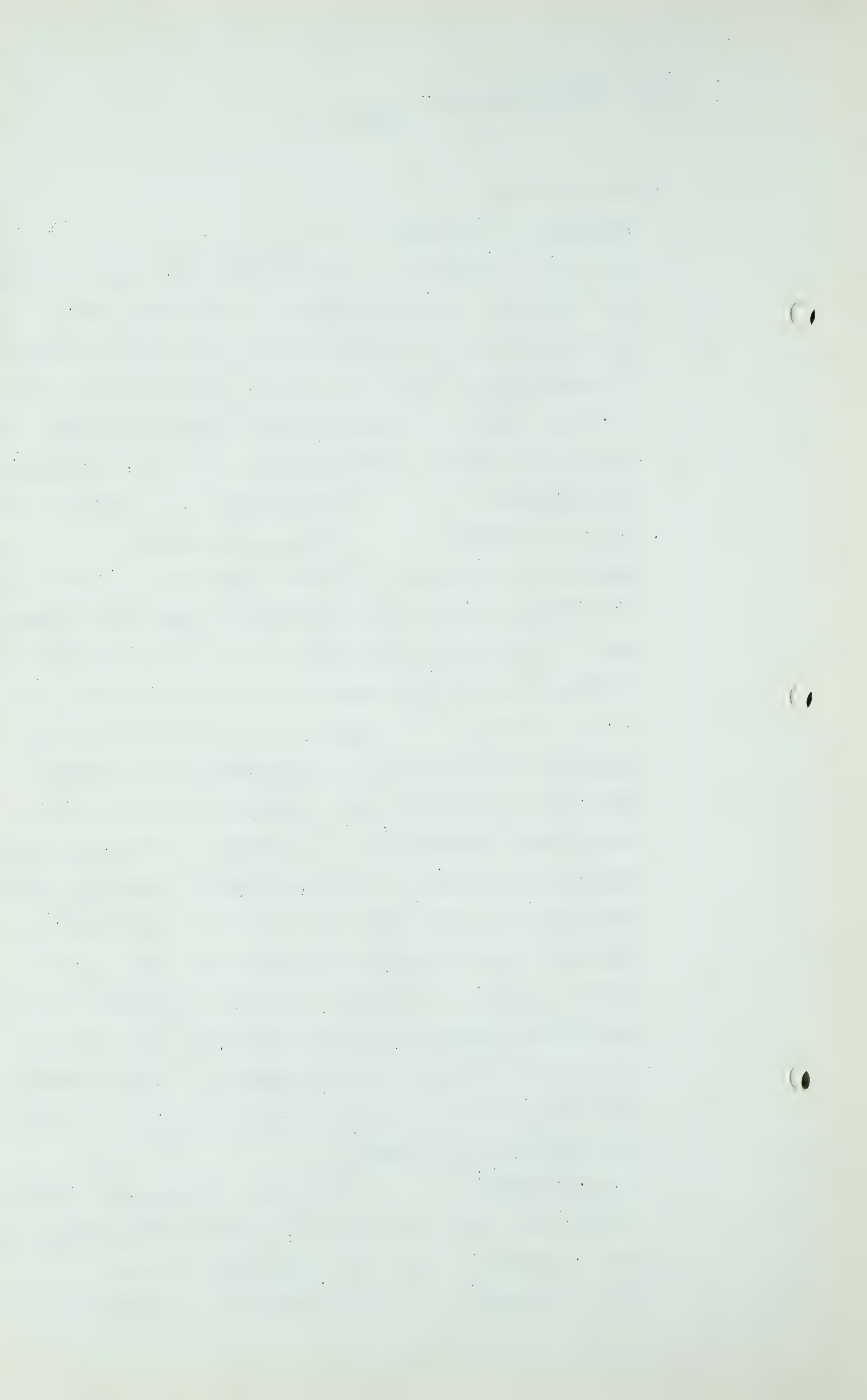
THE CHAIRMAN: Would that be all right, Mr. Smith?

MR. S. B. SMITH: Excuse me a minute. I do not want to be technical or put any difficulties in the way of my friends, but Mr. Herring is here today and available, and I had expected and hoped that my friends would have exhausted their cross-examination so far as it is possible to do. I think it is correct to say that in the cases in which he had referred the cross-examiner to another witness, it was mainly upon a subject which the other witness was perhaps more, with which he was perhaps more thoroughly familiar, or perhaps better qualified, and his suggestion in those cases was, "Well, it would probably be better if you asked the other man rather than myself." It is not a matter, so far as I can see, of having Mr. Herring back for an additional cross-examination upon those subjects. He is here, and can be cross-examined. Those questions have been referred to other witnesses by him he thought better qualified to answer.

MR. C.E. SMITH: This can be very easily concluded, all Mr. Smith has to say that he will have Mr. Herring back.

MR. S.B. SMITH: We will have him back.

MR. C. E. SMITH: Mr. McDonald is worried about



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filling in the gaps?

MR. McDONALD: No, I am frankly worried about passing the buck from one witness to another, and I may be left without an answer.

MR. FENERTY: No, that could not happen.

MR. S. B. SMITH: We are under the jurisdiction of this Board and we will follow the directions of the Board.

THE CHAIRMAN: Is Mr. Herring going back or will he be available?

MR. SMITH: We have some other work before the end of October when we have a sittings then, and the company has a Federal Power application coming on, but we will do our best to accommodate the Board's direction.

THE CHAIRMAN: Will Mr. Herring be here next week?

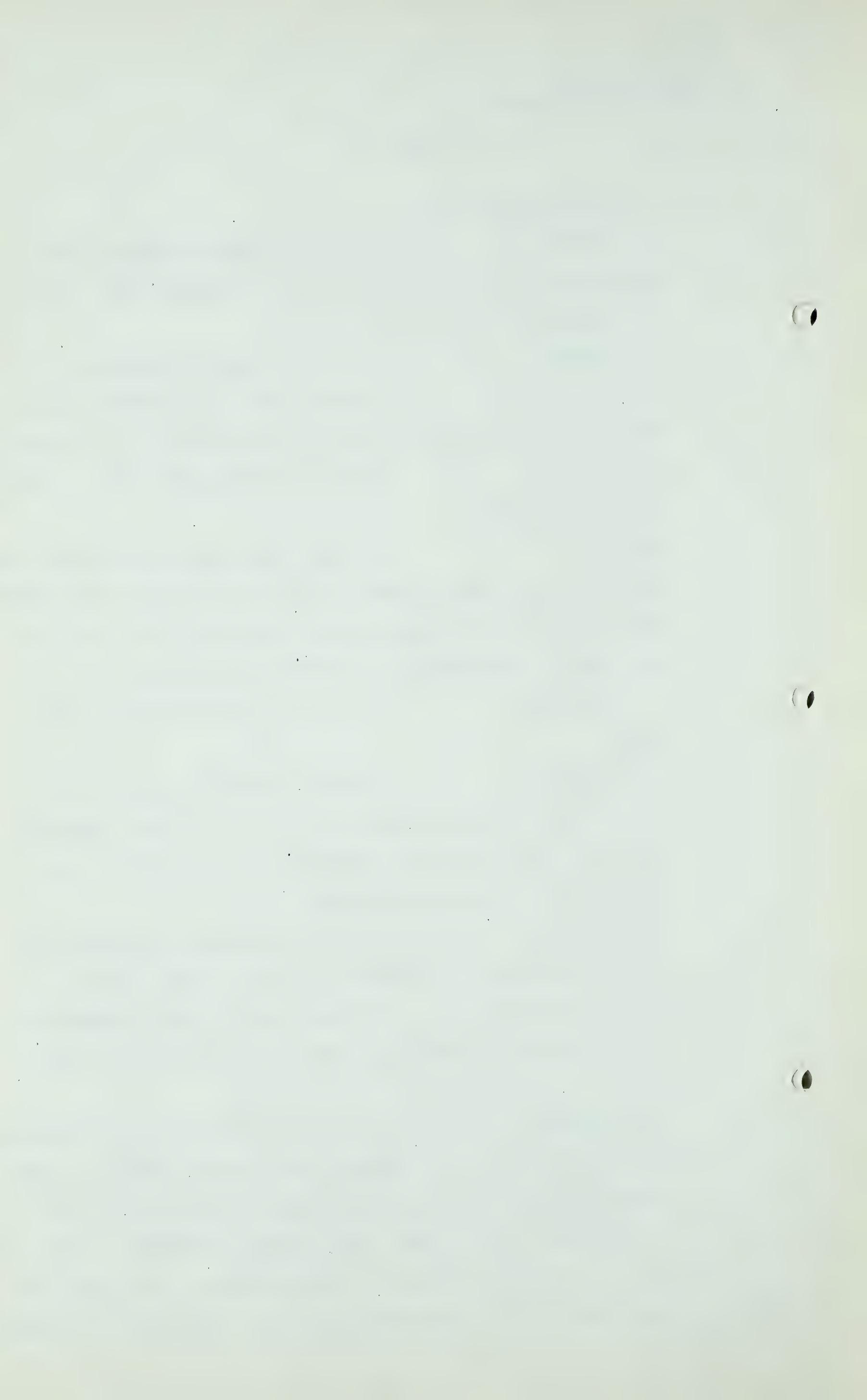
MR. HERRING: I would prefer to get the man that I have in mind immediately to work on this deliverability so that it can be prepared by the 30th, and that would require leaving tomorrow.

THE CHAIRMAN: If Mr. Herring has to leave that will be all right. I presume he will be back later?

MR. S. B. SMITH: At some stage in the proceedings he is probably certain to be here, and probably for some time.

THE CHAIRMAN: All right, thank you, Mr. Herring.

MR. S. B. SMITH: Now, if the Board pleases, we had intended at this stage to commence our evidence upon the gas reserves, but we have here a witness from New York upon the financial aspect of the matter, we have him here and he has to be, unfortunately, back in New York on Monday



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and, although it is somewhat out of the course we had intended to follow, I would like to call that witness now, and that is Mr. Francis Kernan of New York, sirs.

THE CHAIRMAN: All right.

.....

FRANCIS KERNAN, having been first duly sworn, examined by Mr. S. B.Smith, testified as follows:-

Q Mr.Kernan, what is your occupation?

A I am a general partner of White,Weld & Company, Investment Bankers, with the principal office in New York City.

Q And you have had some negotiations and discussions with officials of Pacific Northwest Pipeline Corporation with respect to their projected plans for carrying gas into the Pacific Northwest, I understand?

A That is correct, and I have collaborated in that with Kidder, Peabody & Company of New York and Dominion Securities Corporation. I would not say that they are behind my testimony, but they have been over my direct testimony and they have approved the conclusions therein.

Q And would you tell us something about your experience and the experience of your firm, White,Weld & Company, in connection with the financing of natural gas pipe line companies?

A In 1927, or about that time, my firm financed the construction of the original system of El Paso Natural Gas Company, extending from gas fields in Lea County, New Mexico, to El Paso. Since that time we have headed and managed the financing of several different classes of securities of that company, including first mortgage bonds,

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various classes of preferred stock and common stocks as the system has been extended to gather gas from the Texas Panhandle and the Permian basin of West Texas to serve Tucson, Phoenix and other communities and industries in the Southwestern States, and, finally, to bring gas to the California border for the purpose of serving the Los Angeles and San Francisco areas.

In 1943 and 1944 my firm, co-operating with the Chicago Corporation, Chicago, Illinois, furnished the equity capital to build the original Tennessee Gas Transmission Company system, extending from Texas to Charleston, West Virginia. Since that time we have been joint manager with others in handling the financing of the further expansion of that system, which financing included the selling of first mortgage bonds, debentures, preferred stock and common stock. The total capital thus raised has exceeded \$200,000,000.00.

Q Your total capital figure there, could I interrupt you for a minute, you have referred to the total capital, just what is that?

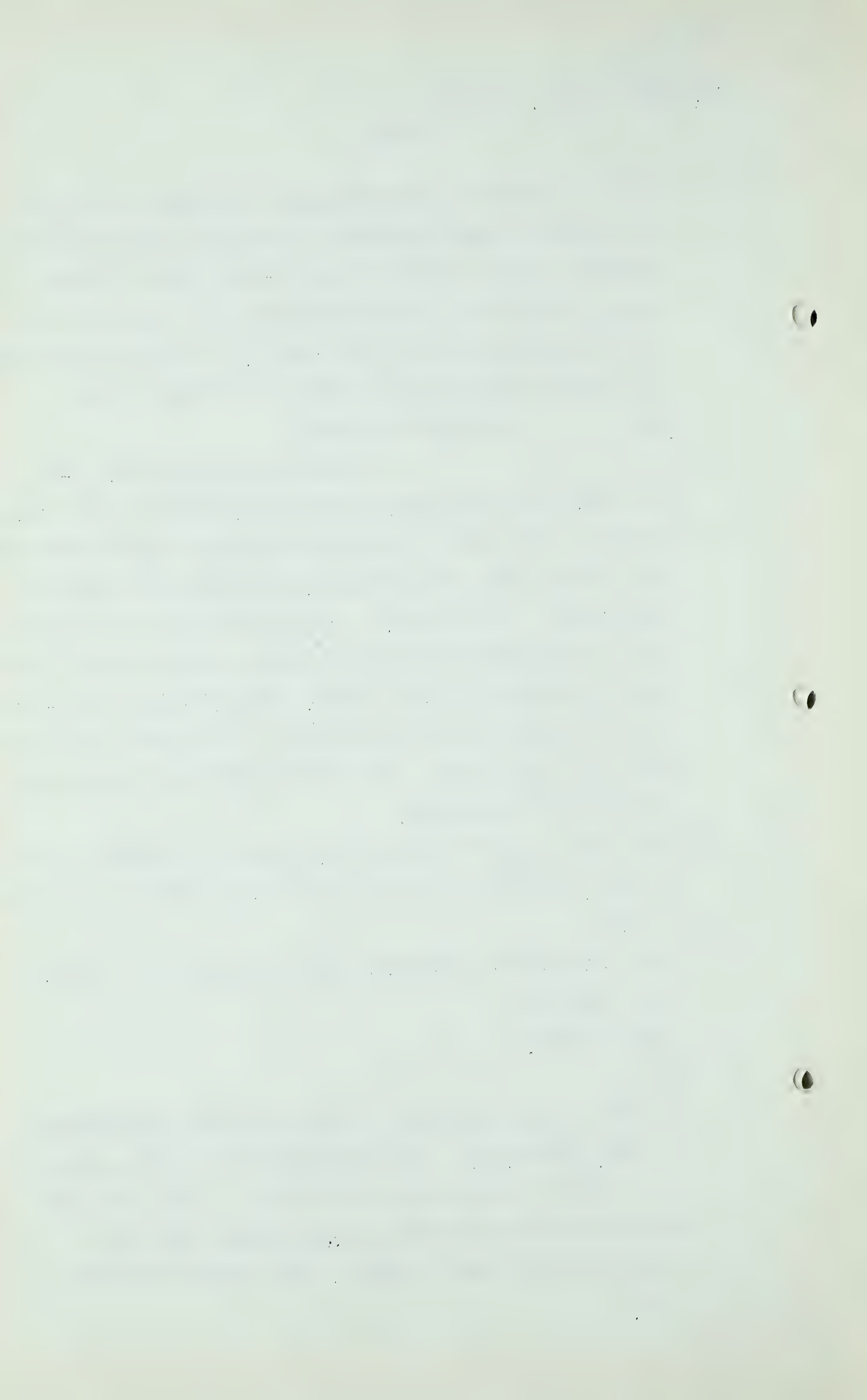
A The total capital raised for Tennessee Gas Transmission.

Q Just Tennessee?

A That is right.

Q Yes?

A In 1948 my firm, as senior manager, handled the financing of \$192,000,000.00, which included bonds, notes and common stock, to finance the construction of the system of Transcontinental Gas Pipeline Corporation now being completed from Texas to Newark, Philadelphia and New York.



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In 1949 and 1950 my firm handled the financing of the system of East Tennessee Natural Gas Company, now being completed, to serve the central and a large part of the Eastern sections of Tennessee.

This summer my firm, as senior manager, headed the financing of \$120,000,000.00 for the construction by Texas-Illinois Natural Gas Pipeline Company of a proposed system from Texas to furnish additional gas to the Chicago area.

Q Now, Mr. Kernan, would you tell us, what was the largest amount of money so raised for any single company?

A Initially \$192,000,000.00 for Transcontinental Gas Pipeline Company. That financing was in December, 1948, and since that time we have assisted that Company in raising \$32,000,000.00 additional funds to increase the capacity of that system, making a total of \$234,000,000.00.

Q Have you personally participated actively in connection with the work of your firm that you have been describing to us?

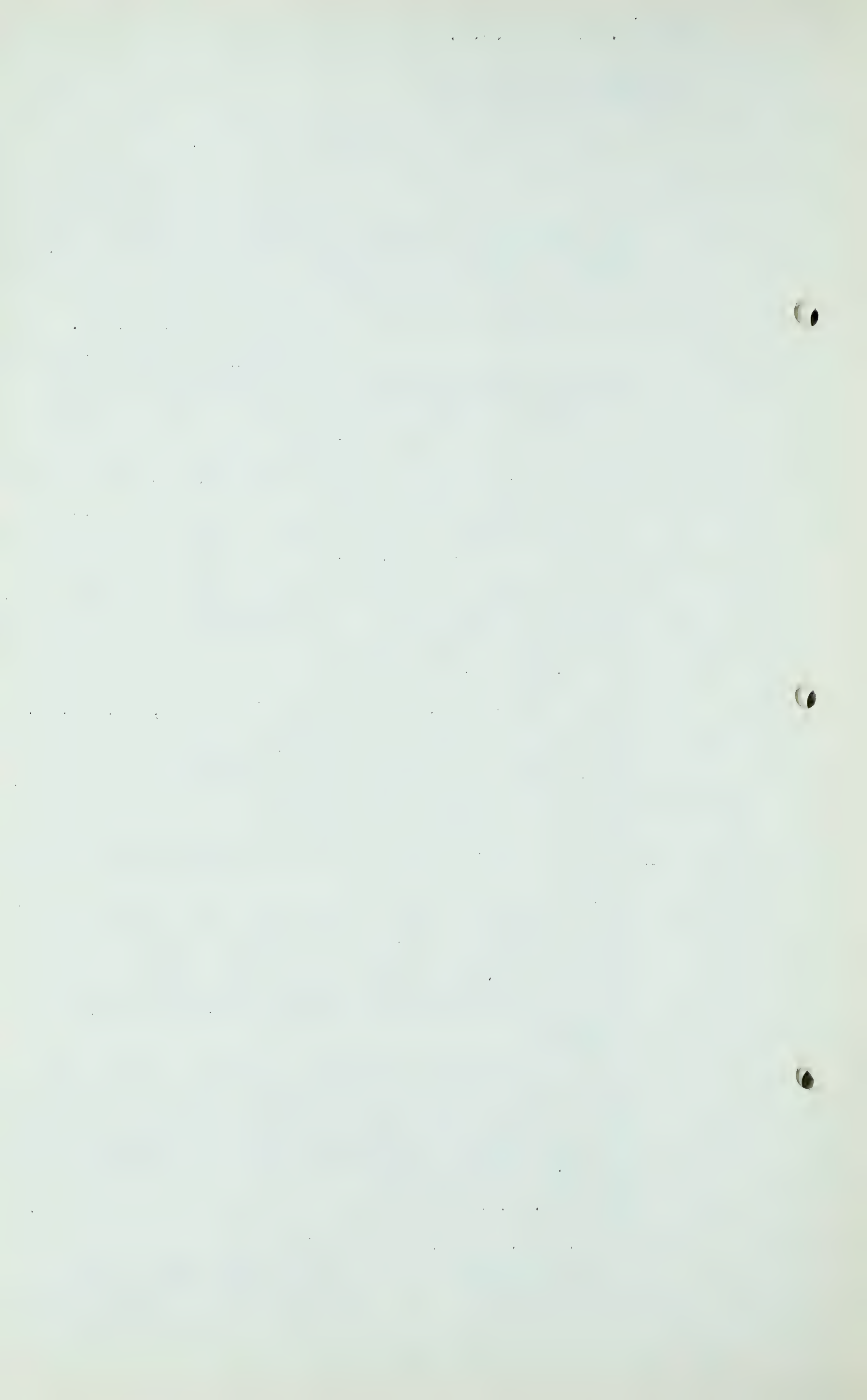
A Since I entered, well, we will say that I came in in 1936 and except for four years of war service I have participated actively in substantially all of this financing.

Q Now, I would like to ask you, have you had any experience with the Fish Engineering Corporation and the personnel of that company in connection with the financing of natural gas pipe line companies?

A Yes.

MR. C. E. SMITH: Did you hear that? Yes.

Q MR. S. B. SMITH: Can you tell us something of that



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exoeerience?

A The Fish Engineering Company prepared the construction cost estimates and the estimates of earnings for the Trans-continental Gas Pipeline Corporation during the year 1948 and testified thereon before the United States Federal Power Commission. I had studied those estimates and figures with various members of the staff of Fish Engineering Corporation before I testified before the Federal Power Commission in that proceeding, and I testified in that proceeding that in my opinion, based on their figures and estimates, that is, the figures and estimates of Fish Engineering Corporation with respect to construction costs and estimates of earnings, and, of course, based on reports of petroleum engineers with respect to gas reserves, that that project could be financed. It was subsequently financed in December of 1948.

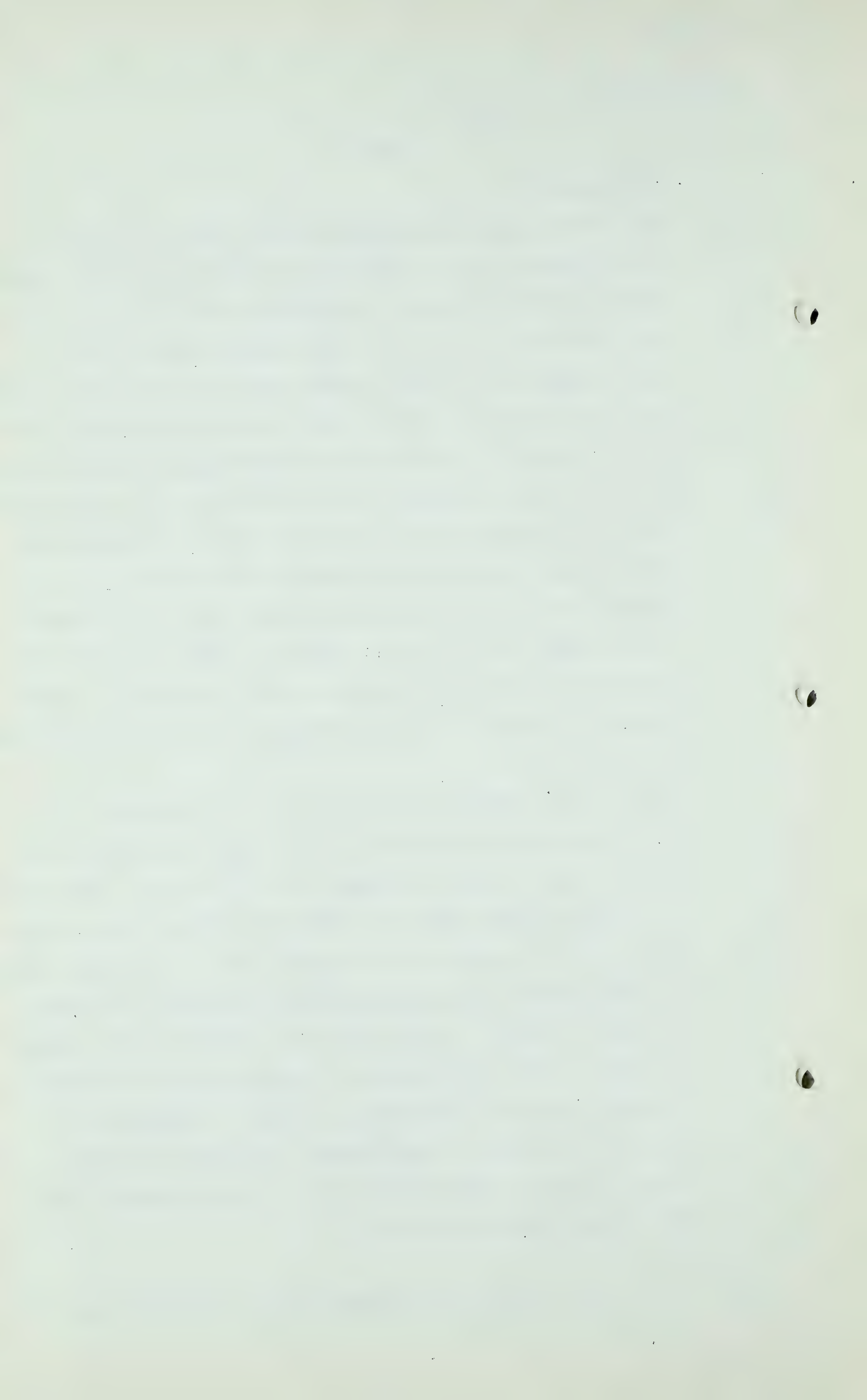
Q Have you any personal knowledge as to the employment of Fish Engineering Corporation by the Texas-Illinois Natural Gas Pipeline Company as supervisory engineers to construct the proposed Texas-Illinois system from Texas into Chicago?

A I do know that they were so employed, and I have worked with the Fish Engineering Corporation in connection therewith.

Q And can you assist us by giving your opinion on the finability of the project which is being proposed by Pacific Northwest Pipeline Corporation insofar as estimates of cost and estimates of earnings are concerned, based on reports prepared and testified to by the President of the Fish Engineering Corporation?

A Yes.

Q By the way, that is Mr. Ray Fish, who is sitting here?



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A Yes.

Q Have you discussed with Mr. Fish and Mr. Herring the construction costs and estimates of earnings of Pacific Northwest?

A I have so discussed estimates of construction costs and estimates of earnings on three different bases, on the basis of three different alternative systems.

Q What are those three different alternative systems?

A The first is a system coming from South Texas to the Idaho border, picking up gas from Alberta, and serving the United States Pacific Northwest and British Columbia that was talked about here today.

Q Suppose we call that system "A"?

A System "A".

Q All right, Mr. Kernan?

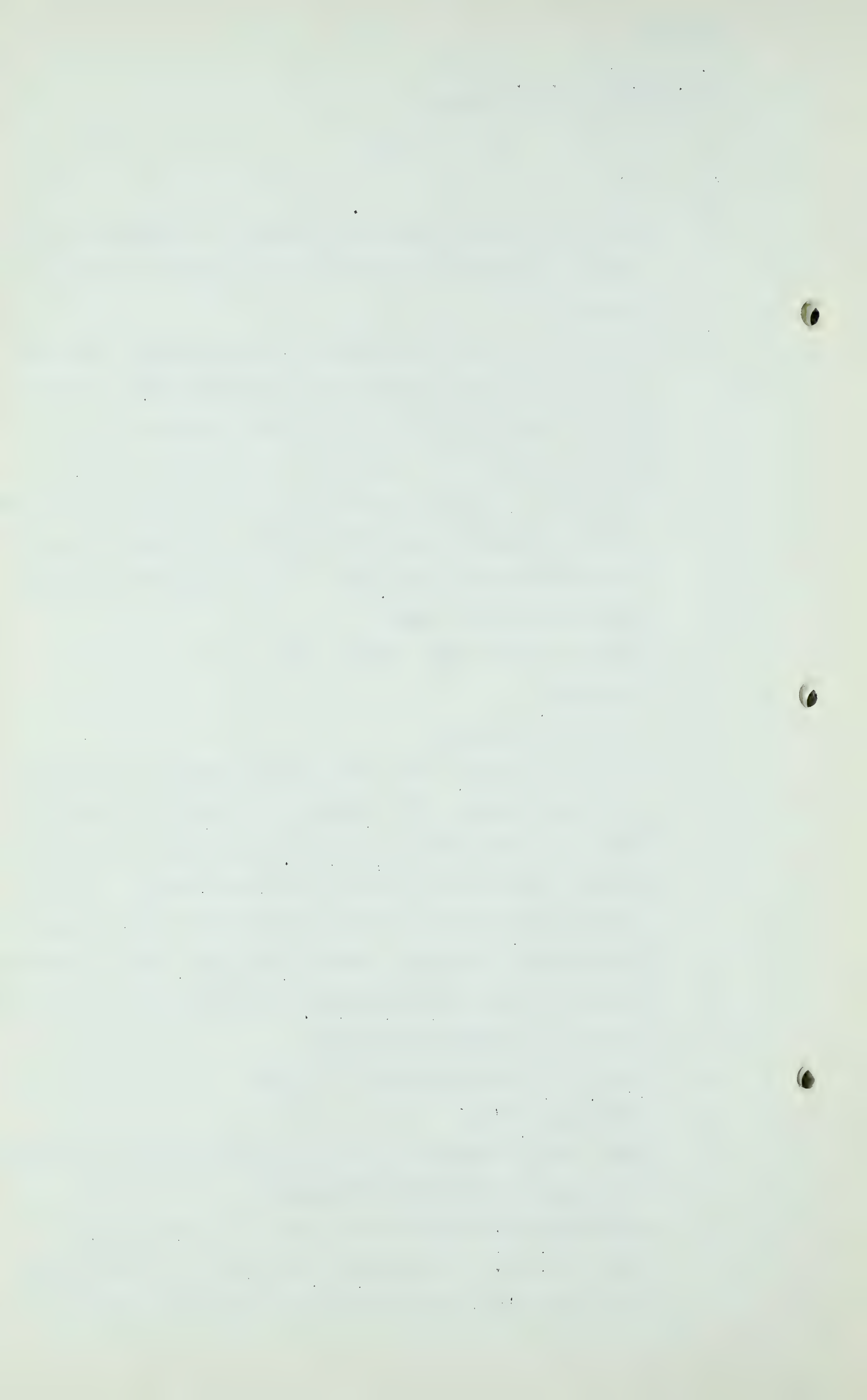
A System "B" would be the same system leaving out taking any gas from Alberta. The estimated construction costs of the first one, as I remember, was \$192,000,000.00 odd dollars, and the second was \$198,000,000.00 odd dollars and the third system, which we will call "C", for the purposes of convenience, includes a cut-off from about Enid, Oklahoma, on project "A" to go to Windsor, Ontario, at an estimated cost of about \$265,000,000.00.

Q What is the estimated cost of that?

A \$265,000,000.00.

Q This \$192,000,000.00 is for the combination of the system from Texas to the Pacific Northwest?

A \$192,000,000.00 contemplates using the Alberta gas; \$198,000,000.00 contemplates not using the Alberta gas; and system "C", \$265,000,000.00 contemplates using the



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Alberta gas and also the cut-off from Enid, Oklahoma.

Q There is no cut-off from Enid in "A" or "B"?

A Yes, no cut-off.

Q The \$265,000,000.00 is all-inclusive, is it? And, if so, to where?

A To Windsor, Onario.

Q To Windsor, Ontario?

A Yes.

Q Now, have you discussed with Mr. Fish, Mr. Herring and representatives of the Fish Engineering Corporation estimates of construction costs and estimates of earnings on those three proposals?

A That is correct.

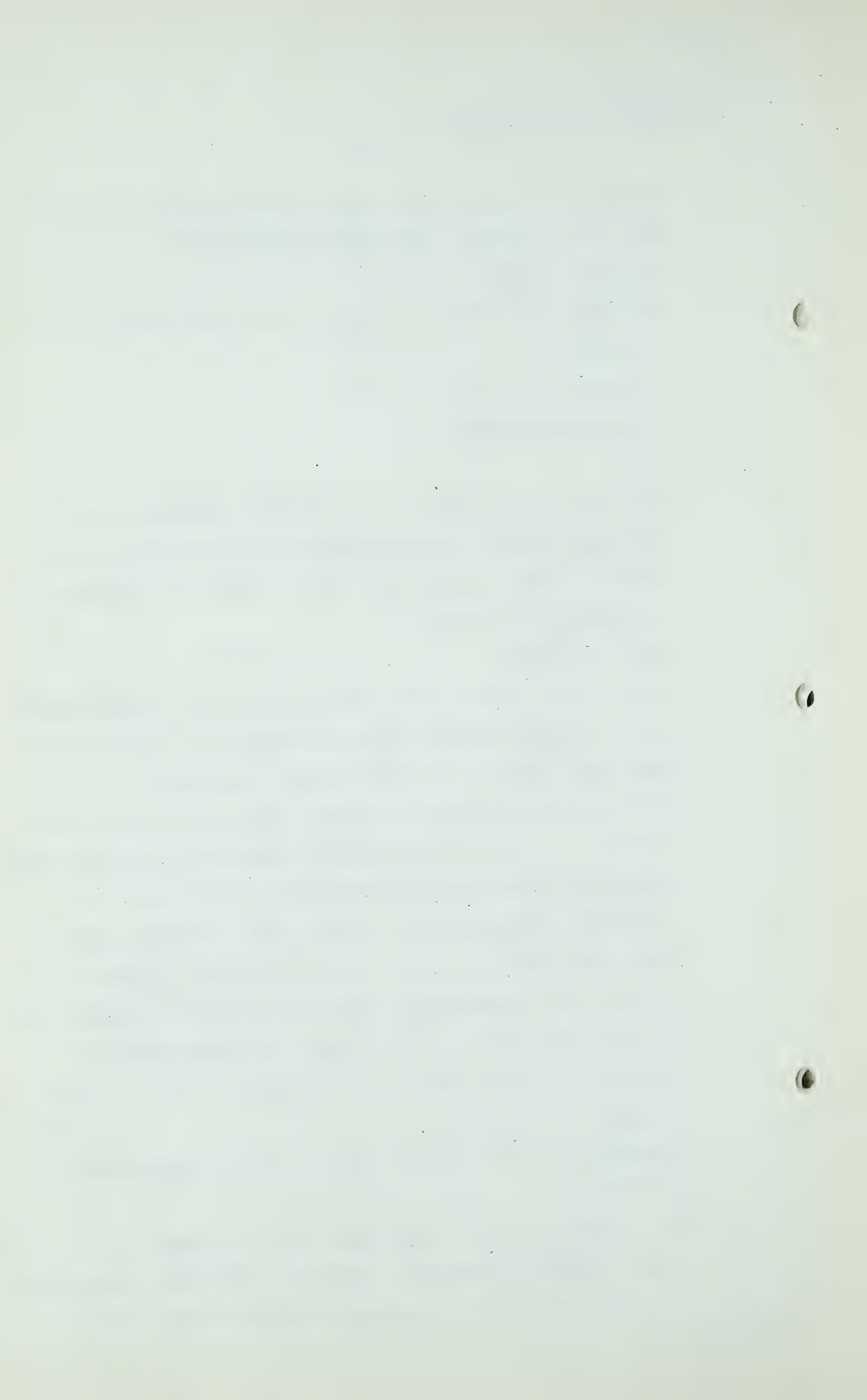
Q What is your opinion, Mr. Kernan, as to the financability of these three proposed projects insofar as construction costs and estimates of earnings are concerned?

A It is my opinion that if adequate gas is contracted for and dedicated at the approximate prices and the approximate locations allowed for in those estimates of the Fish Engineering Corporation, which I have discussed with them, and proper contracts are executed with buyers of good credit, providing for the gross revenues provided for in such discussions, that all three of these proposed schemes or systems can be financed under present circumstances.

Q I suppose that is, rather, that any one of these three can be?

A Yes that any one of the three could be financed.

Q Yes. I assume, Mr. Kernan, that you would want appropriate estimates of reserves and deliverability of gas from



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acceptable petroleum engineers, or an engineer, and you would want to examine and consider the contracts for the sale of gas and the proposed buyers of it before your testimony with respect to the financial feasibility of the project would be entirely complete?

A Yes, that is correct.

Q Those conditions would exist?

A That is correct.

Q Now, you have said, in effect, that deliverability was an important consideration in reaching your conclusion with respect to gas reserves. Suppose a competent petroleum engineer gave his opinion with regard to plan "A", that while there were reserves justifying the dedication of 100,000,000 feet of gas per day to the project, that because of the lack of adequate drilling on the project he could not qualify those reserves on the deliverability factor, would that prevent you from having the opinion that plan "A" was financable?

A No, for two reasons. In the first place I do not believe that an acceptable petroleum engineer would give an opinion on gas reserves without either being confident that there would be deliverability within certain limits when proper drilling was completed, or else specifying why he thought there might not be deliverability.

In the second place, the investment contemplated to take the Alberta gas to the border by this system is only \$14,000,000.00 odd out of \$192,000,000.00 under project "A", and more in "B" and "C", and I find it impossible to conceive of such lack of deliverability, with a reserve report of that kind, as to make me change my



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opinion because of that factor alone.

Q Mr. Kernan, are you satisfied with the estimates of expenses and costs discussed with you by the Fish Engineering Corporation?

A Yes. These estimates have been stated to me by Mr. Fish and other members of his staff to be prepared from using as a basis the estimates of expenses and costs of other operating pipe line companies, and my answer to that question is that I am.

Q And what is your understanding as to whether the United States and Canadian projects of the Prairie Companies and Pacific Northwest, perhaps we should say the project of Pacific Northwest, would be financed as one system?

A It is my understanding it would be financed as one system.

Q Have you studied the possibility of financing alone that part of the line which would be in Canada?

A I have not.

MR. FENERTY: Which line?

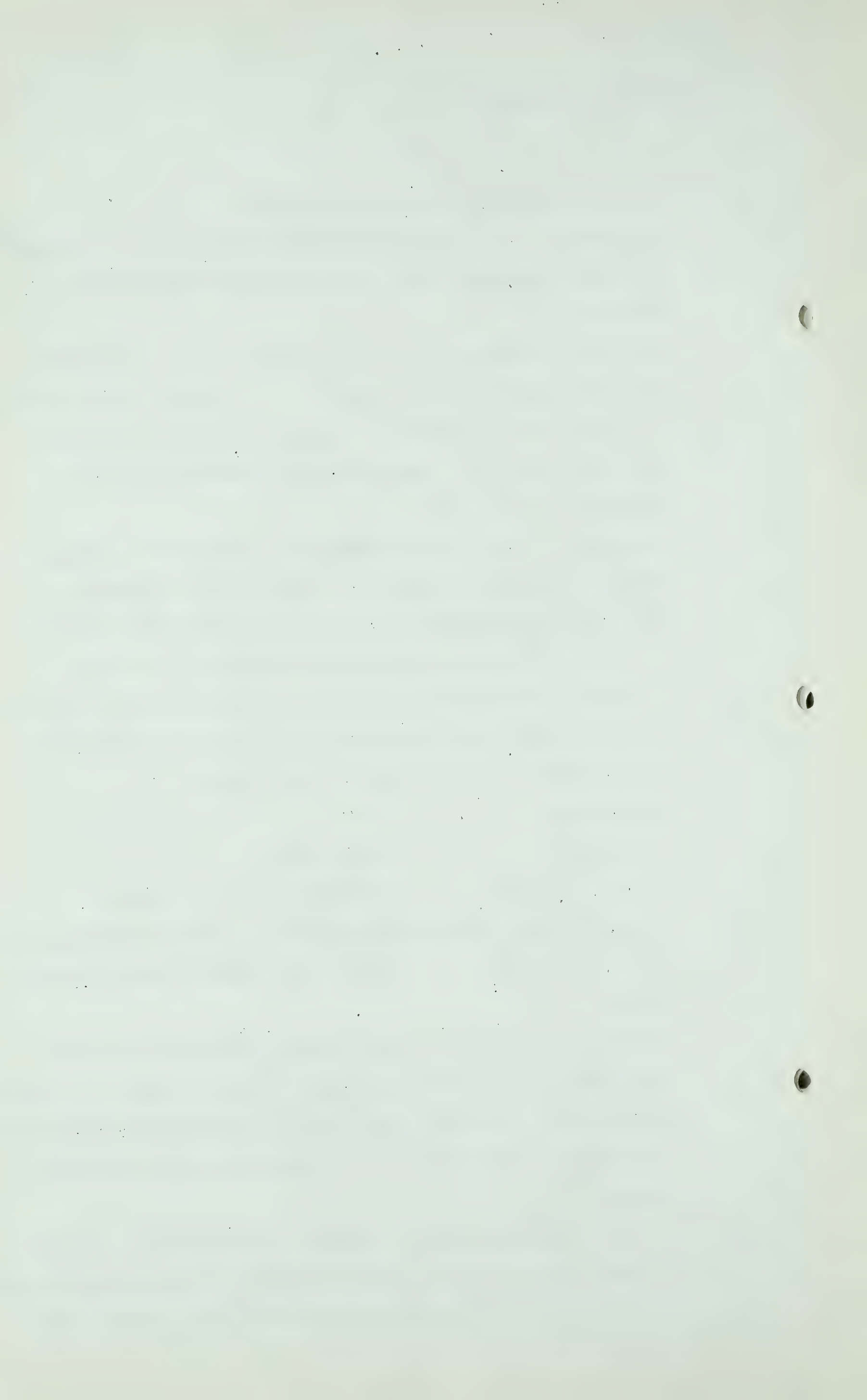
Q MR. S. B. SMITH: Which would be in Canada.

A The part of the line in Canada alone I have not studied it.

MR. C. E. SMITH: It is just peanuts, as Mr. Fenerty says.

Q MR. S. B. SMITH: Mr. Kernan, would you tell us what type of securities you would recommend that the Company should raise, or should sell for the purposes of raising the money for any one of these three projects, and maybe all three?

A I would recommend that the company raise roughly 75% thereof with first mortgage pipe line 20-year bonds, approximately 10% thereof with preferred stock and part of the common



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stock, to be sold in units, and approximately 15% in
common stock.

Q Will you answer the Board and my learned friends, Mr.
Kernan?

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MR. C. E. SMITH: I have one question but I usually wait for other counsel, sir.

MR. NOLAN: I am junior to Mr. Fenerty.

CROSS-EXAMINATION BY MR. FENERTY:

Q I am only interested in Canadian gas and Canadian concerns. You have just been talking about a little 14 million dollar line and I do not suppose you can tell me much of the details?

A I believe it could be financed as part of the whole project.

Q On the basis that it is Canadian gas through a 14 million dollar pipe line dedicated to British Columbia. You do not need any details about that to finance that?

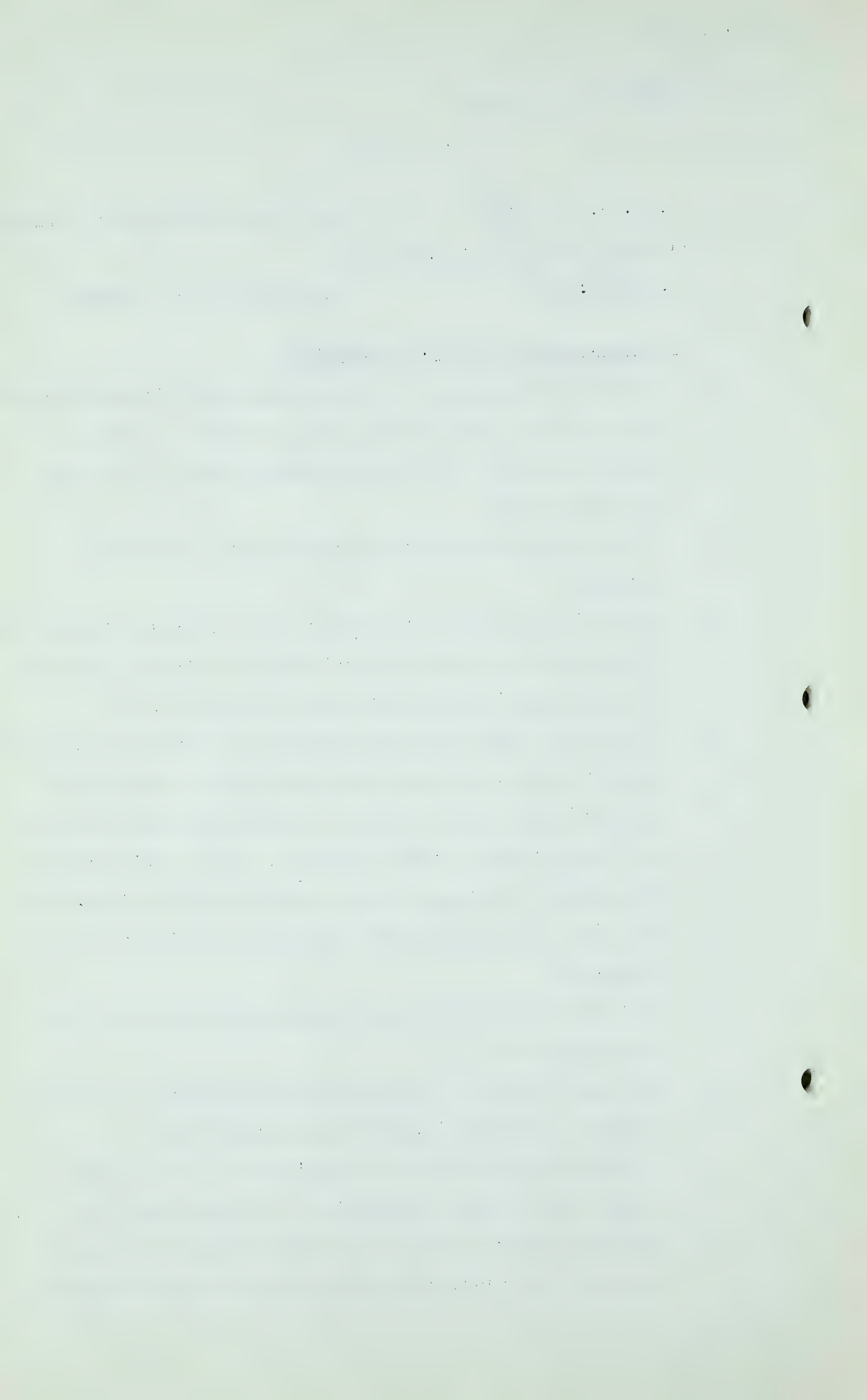
A I have been over the Fish Engineering Corporation figures both on production costs and earnings and taking 100 million cubic feet of gas as a beginning from Alberta at the prices used in their estimate, I am of the opinion the project is financable as part of the whole project.

Q Did you find out what they would have to sell it for in Vancouver?

A Yes. Mr. Fish told me what he thought they would have to sell it for.

Q And that end of it could be financed whether or not it could be sold at a profit, do you mean that?

A I based my opinion on the engineers' report, in whom I have confidence. Furthermore, it is more than my opinion because I do not have 192 millions. It is a fact that the insurance companies had confidence too.



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Q You have seen some reports that say they would have to sell gas at 30 cents in Vancouver? Could you buy the gas, transport it, and sell it at Vancouver at a profit?

A Mr. Fish and his associates have discussed that matter with me and we have agreed that financing this line is feasible.

Q It seems to me that you gentlemen treat the Canadian end of this project as a complete joke. Just a joke?

A I do not think 100 million cubic feet of gas per day is a joke, not at all.

Q It has become a joke, that is my opinion.

CROSS-EXAMINATION BY MR. NOLAN:

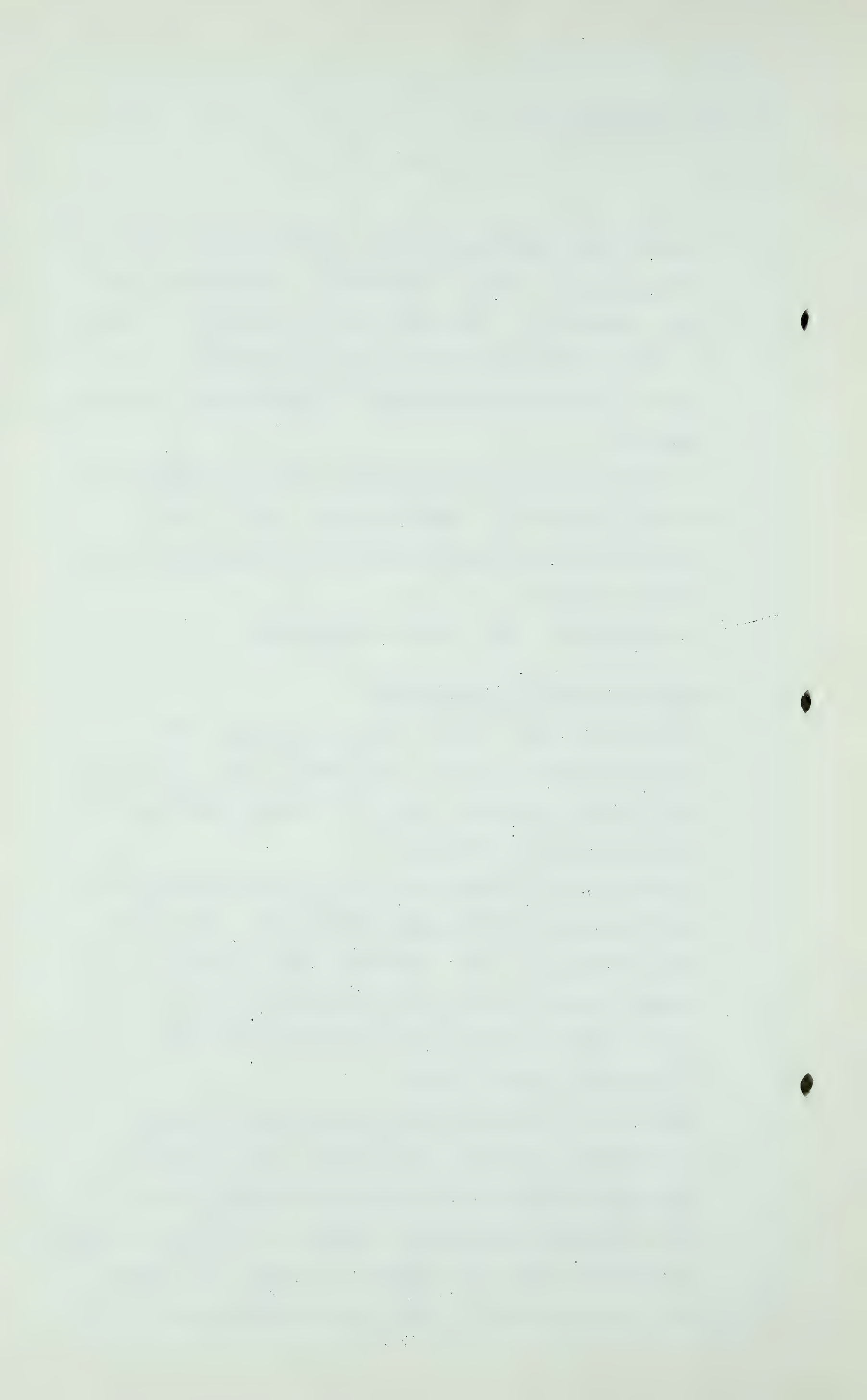
Q A few moments ago you said some nice things about the Fish Engineering Company, with which I will not quarrel with you for one moment, but will you say something nice about Brokaw, Dixon & McKee?

A I think it would be much better if we did not get into any discussion on gas reserve engineers. It might be very embarrassing and I would not like to bring it up.

Q For many years your firm has done business with Brokaw, Dixon & McKee, and have had to consider the reports made by them from time to time?

A That is true, for the El Paso Natural Gas Company.

Q I understand you to say, Mr. Kernan, you have had a conversation with Mr. Fish and his associates and you have discussed with them the expense, the costs, including construction costs and earnings, and you have come to the conclusion that if there are adequate reserves and



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certain other things, this is financially feasible?

A That is right.

Q How do you mean, if the reserves are there?

A At the outset of a project of this size other engineers would be called in to check on one set of engineers. Now, the only thing I can say is in the Transcontinental Pipe Line, which is also a project costing 192 million dollars, we had the Fish Engineering Corporation figures checked by Stone & Webster Corporation and there was at the finish not as much difference between them as you could put in your eye.

Q Is it your practice to check these things yourself?

A Yes.

Q You do that yourself?

A Yes. Well, we have petroleum engineers to check the estimates of gas reserves.

Q Who are independent of the applicant, so to speak?

A Yes. They are people of national standing, and they are hired by and paid by the applicant but they are completely acceptable to us and other financial people.

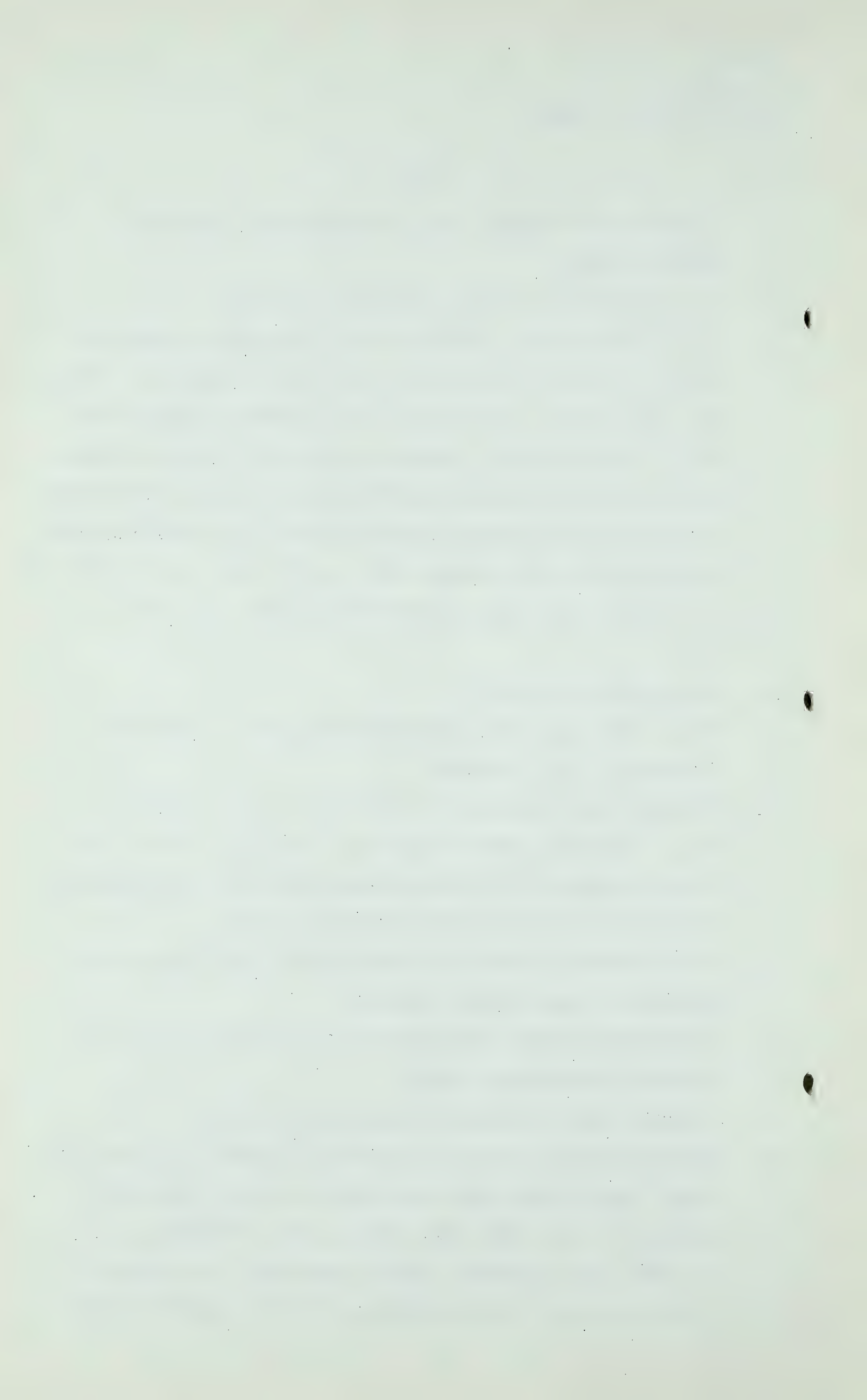
Q And I think you used the expression "if our reserves are adequate at approximate prices."

A Approximate prices and approximate earnings as used in the Fish Engineering report.

Q And what does that mean, "approximate prices"?

A The difference between 8 cents and 10 cents on 100 million cubic feet of gas would make quite a lot of difference, whereas 8 to $8\frac{1}{4}$ might not make too much difference.

My point is that people buying securities in a project like this want to know whether or not the project could



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earn 6 or $6\frac{1}{4}$ per cent on its capitalization. Therefore the price they have to pay for the gas and the price they sell the gas at are important factors.

Q I would think so and also the cost of the transportation of that gas. All that enters into the question of the return on your investment?

A That is right.

Q You must know, then, the price you are going to pay for the gas?

A You certainly must.

Q And you would have to know the price that you are going to sell the gas at to the distributor?

A That is quite true.

Q Do you have those two figures?

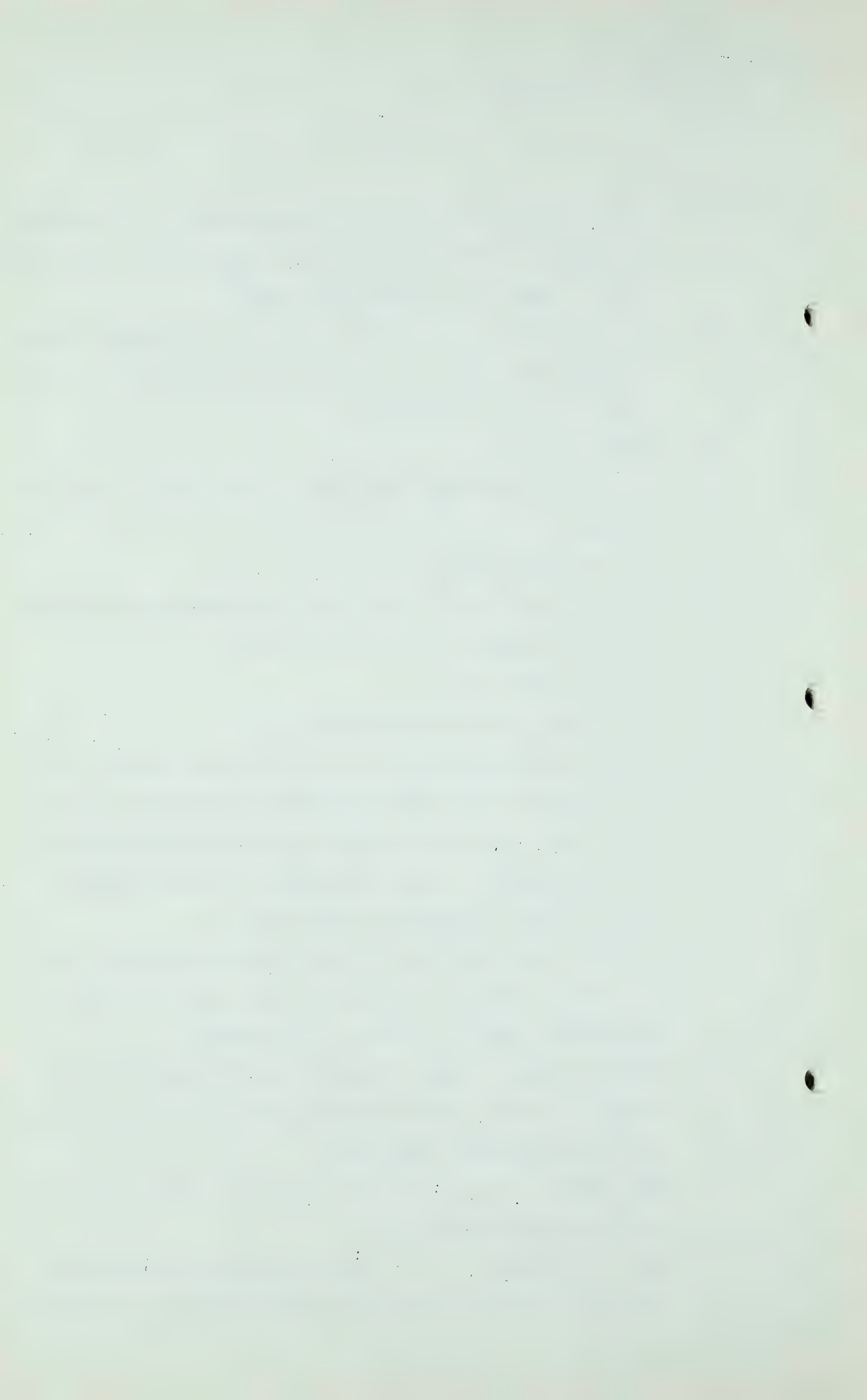
A I have seen the estimates of the earnings based on the prices used in the Fish Engineering Corporation report as projected in the testimony, and they are willing to pay the purchase price of the gas at the approximate prices today, whatever they may be.

Q And if those conditions we spoke about were established to your satisfaction then you were content to finance the project, that is what you are saying?

A That is right. I have depended a good deal on the Fish report, that is, the Fish Engineering Corporation Report to their investment bankers.

MR. NOLAN: Are we to have that report made available to us?

MR. S. B. SMITH: The position is that this is one of the matters within the jurisdiction of the Federal



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Power Commission, before whom there is a pending application.

MR. NOLAN: I take that to mean that we are not going to get the information?

A I can say this that I asked Mr. Fish what price he would have to pay for the gas and he said that the prices today were between 8 and 11 cents for 1000 BTU gas, and the sales price, he said, would vary between 30 and 35 cents.

Q And on the basis of those approximate figures you took this matter under advisement?

A That is right. Those figures make sense to me.

Q And on the basis of proper contracts having been entered into?

A That, of course, is an essential.

Q Have they been entered into?

A I have not seen them.

Q Is not this the position - I am only a layman and I have had little experience with financing pipe lines - that you, as a banker, or your firm, are prepared to lay down certain conditions to these people who have these projects in view, and if they satisfy those conditions your firm is quite willing to go ahead and do the financing?

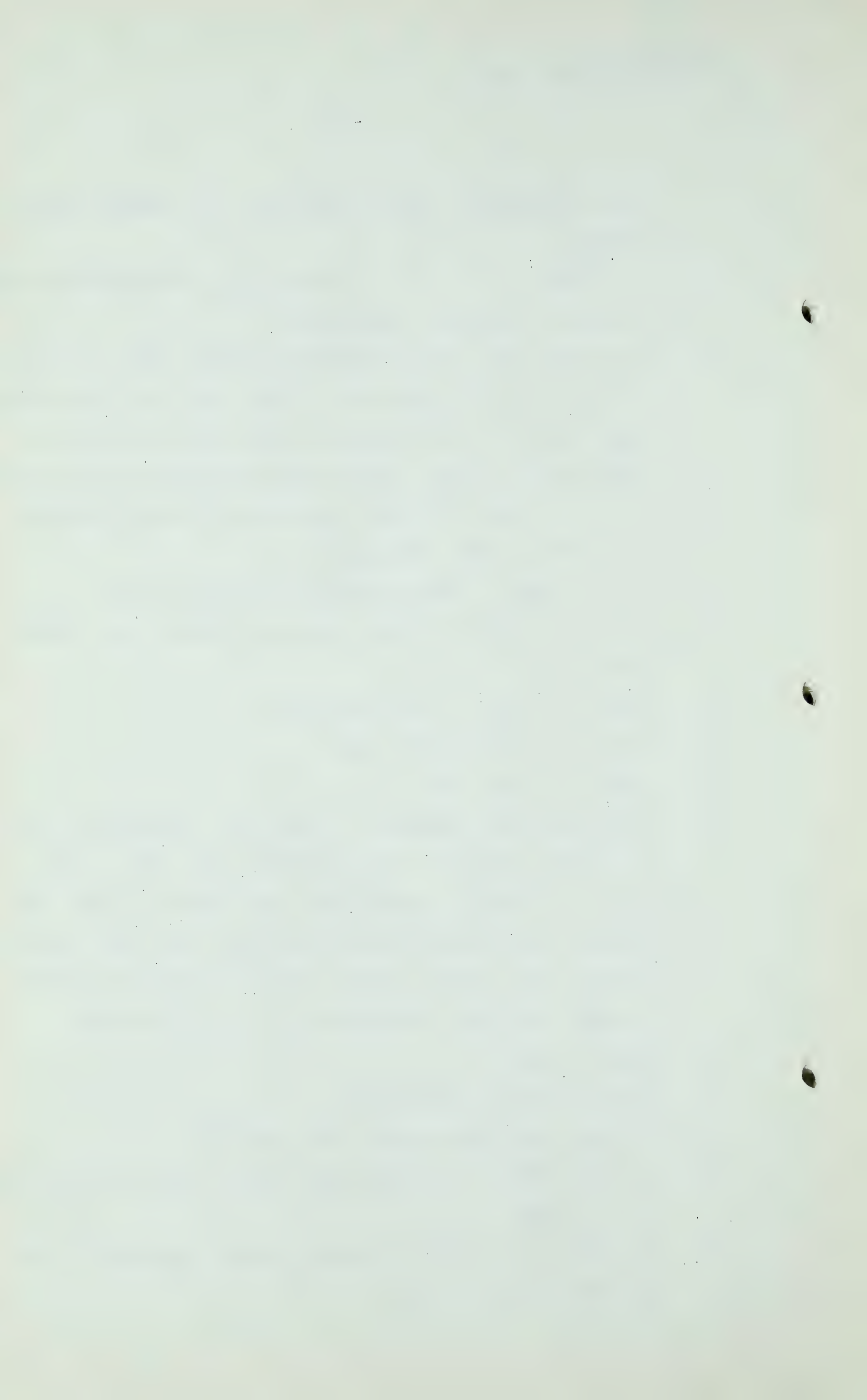
A That is correct.

Q They must satisfy them all?

A We know that they can make the contracts.

Q But that has not been done yet because it is not practicable to do it yet?

A No. You have to have a Federal Power Commission licence to commence.



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Q And that is a very important step?

A That is the sine qua non.

MR. C. E. SMITH: Is that Latin?

MR. NOLAN: Yes, that is Latin.

MR. C. E. SMITH: Without which etc.?

Q MR. NOLAN: Were you here this morning?

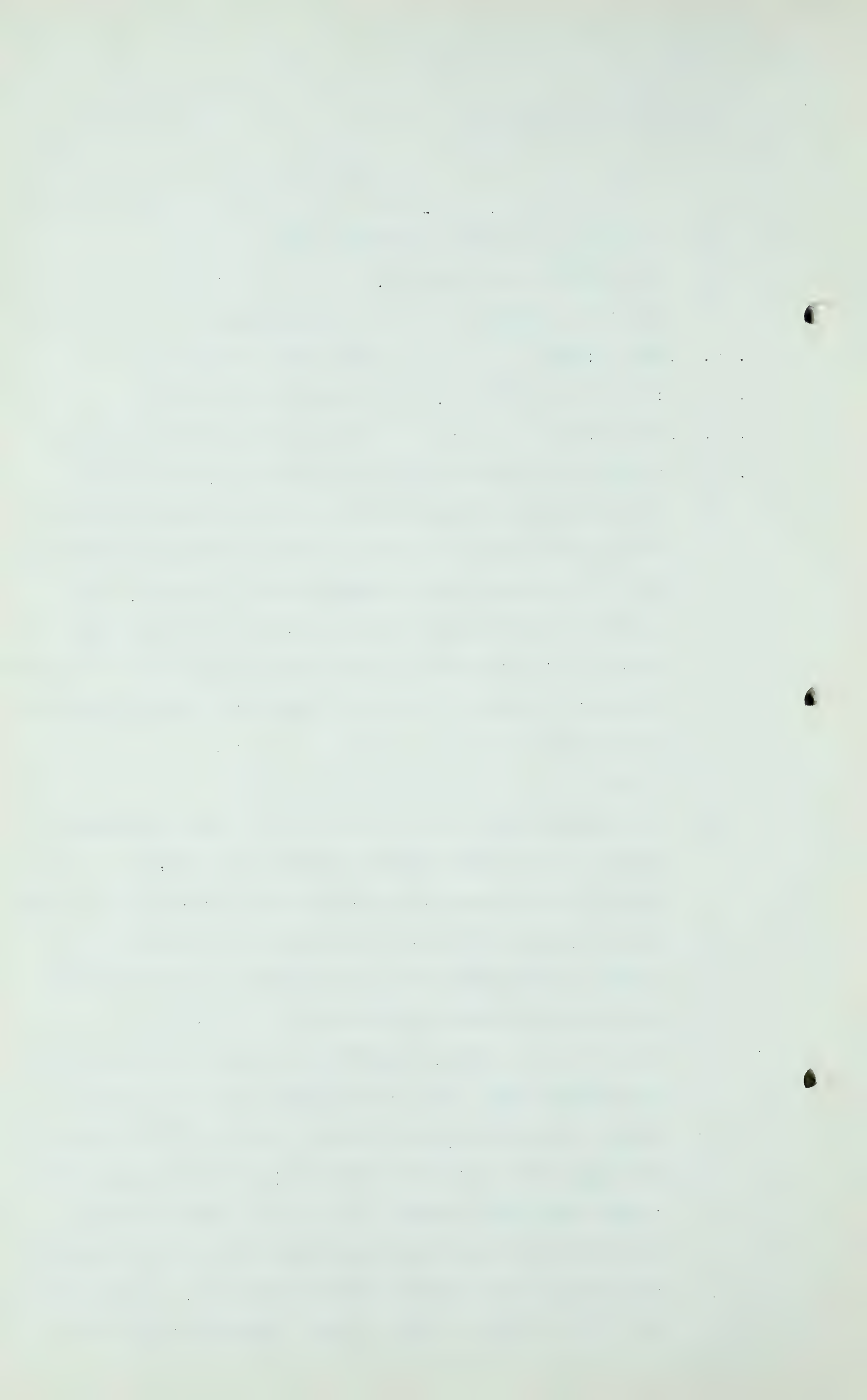
A I was here most of the time but not all of the time.

Q There was some discussion as to the willingness of the Fish Corporation, or I should say the Pacific Northwest, that is what we call the company that is really the applicant here, their willingness to use Alberta gas to satisfy the specific requirements of the Pacific Northwest market. I wonder if you were here when that discussion took place?

A I was.

Q And did you hear Mr. Herring tell us what was going to happen to the line between Oklahoma and Hanford if the Pacific Northwest, if its requirements were to be filled from Alberta? Have you considered that matter in the light of financing and in the light of diverting that line from Oklahoma to Hanford?

A Yes, I have. I have considered it before it was brought up this morning. Now, I am going to try and give a frank and honest answer to it. Now Mr. Fish stated to the Board that they would take the additional gas if it became available and Mr. Fish and Mr. Herring both testified this morning that would have to be subject to the order of the Federal Power Commission. In my opinion the United States Federal Power Commission would not



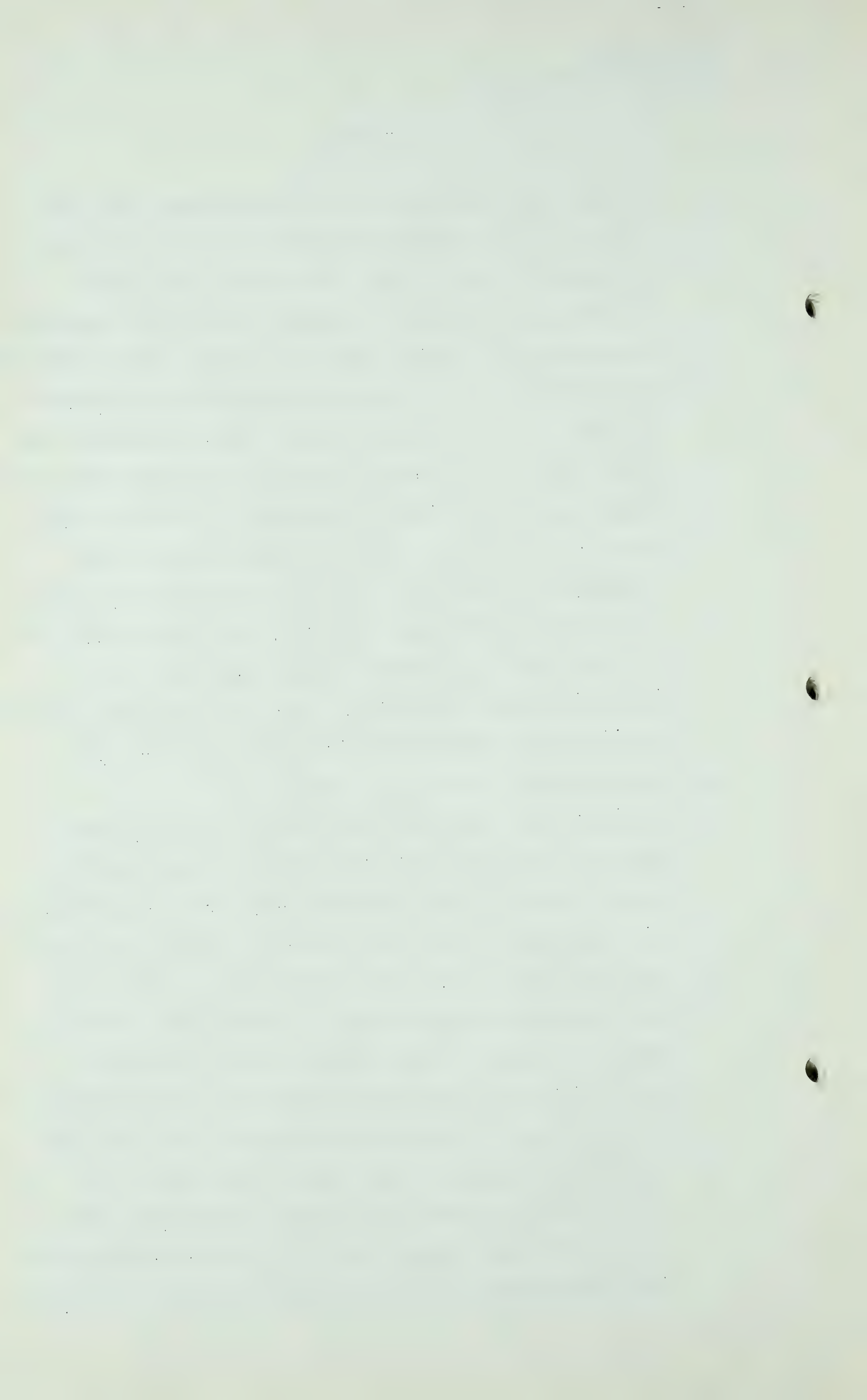
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give an order which would require a company under its jurisdiction to swallow 100 million feet of gas a day or to absorb it at a loss, which would act to the detriment of the security holders. So that if a greater amount than 100 million cubic feet a day, say an additional 100 million cubic feet were available that they wanted to sell, I think the Federal Power Commission would look after the security holders of Pacific Northwest and would delay any permit to Pacific Northwest to take that gas. However, I have talked to Mr. Herring about what he estimates the amount of gas which would be used by this company between the gas fields in Texas and Hanford. He has used the figures which I have discussed with the Fish Engineering Corporation, and I am told by Mr. Herring that is about 150 million cubic feet of gas per day.

Q Does that include that Salt Lake area?

A That is right, and also the Snake River. That would mean that for that 100 million feet you would have to find a new market for somewhere around 100 million cubic feet per day. Now we know that this project intersects two other large pipe line systems, both of which have an increasingly large market for natural gas. There is always a demand for gas and it might be possible to sell any surplus that the Pacific Northwest Company has to either one of these other companies. And then the increased business of this company over a period of years, which no doubt will be quite substantial, and I do not see any danger at all of this 100 million cubic feet being taken care of. I think, as a matter of fact,



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the danger of it not being taken care of is very small.

Q What you mean is in excess of the original 100 million cubic feet, could that be taken care of?

A That is so. Now you have 250 million cubic feet coming up from Texas and you use 150 million in the United States up to Hanford, that only leaves 100 million cubic feet to meet the Pacific Northwest area reserves.

Q Is it fair to say that due to the Federal Power Commission's attitude on this thing, no more than 100 million cubic feet from Alberta could be exported?

A No. Could be exported until such time as markets were found for the additional 100 million cubic feet, but I do not see any very serious problem about that.

Q But would we have to have a permit of the Federal Power Commission for the extra 100 million cubic feet?

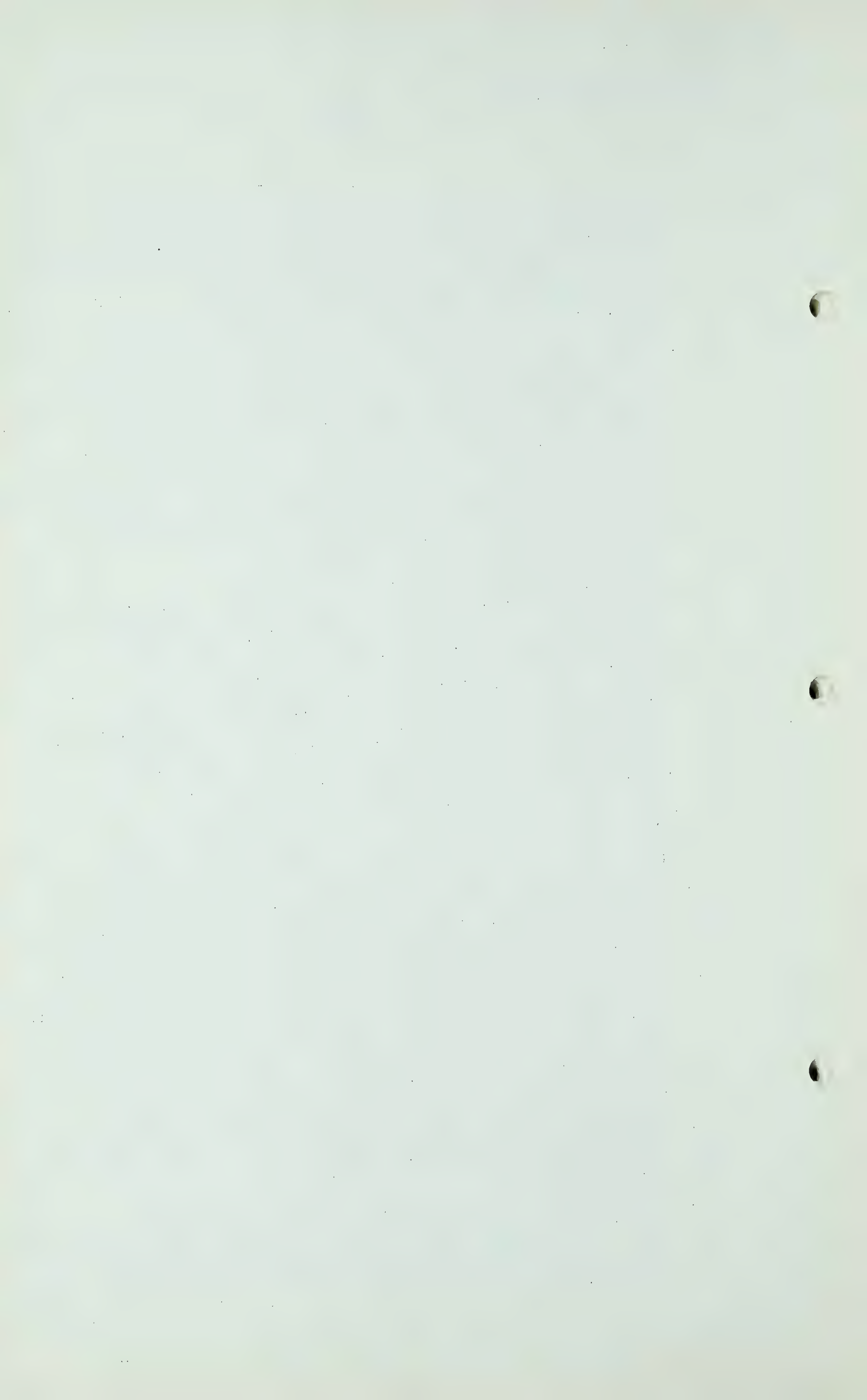
A No, once you have the 100 million taken care of you do not have to have an order for any further amount. There is an order already for 150 million feet into that line.

Q That is, you get 150 million cubic feet from the other end?

A 150 million is already taken care of before you get to Hanford, so 100 million out of 250 is all you are looking for and you can take that, if the eventuality arises, at the convenience of the company. They would take as much more than the 100 million that they require.

Q If you want it you will take it. Is not that what it amounts to?

A No. The company has made the statement that it has found a market for that 100 million feet and could take some-



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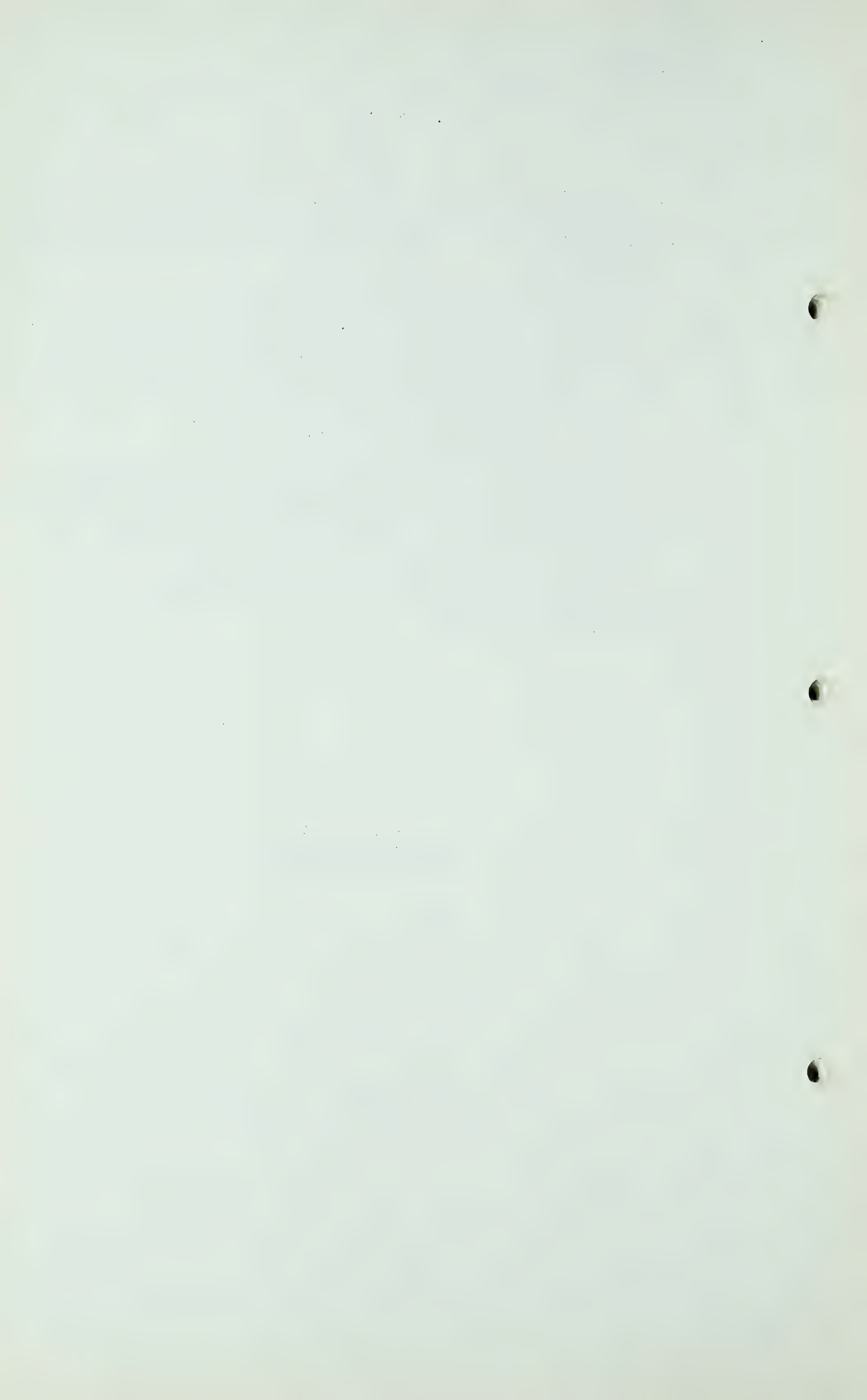
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thing in excess from Alberta. I do not see any serious problem about it. But I do not think you can take it as a guarantee.

Q The fact remains when you are satisfied as to these conditions you have set forth, then and only then will your company undertake the financing of this or any other project of a similar kind?

A I have testified that when we have satisfied ourselves as to production costs and earnings and then of course that there are contracts, both for the sale of the gas and for the purchase of the gas, and on the report of a petroleum engineer.

(Go to page 339.)



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Q Now, this route from Texas to Washington is financially feasible, Mr. Kernan, as you have said?

A Under the conditions that I have stated.

Q Yes, and the Alberta extension with 100 million is financially feasible?

A Under the conditions I have stated.

Q Any expansion or increase in the amount of gas taken from Alberta depends on other facts and circumstances?

A It depends on the development for 100 million feet of gas, development of a market for 100 million feet of gas.

Q Well, do you guarantee to take that gas?

A I have already said that I do not see how anybody can give you a guarantee but I do not see any practical problem, and I think I have given you a very frank answer on it.

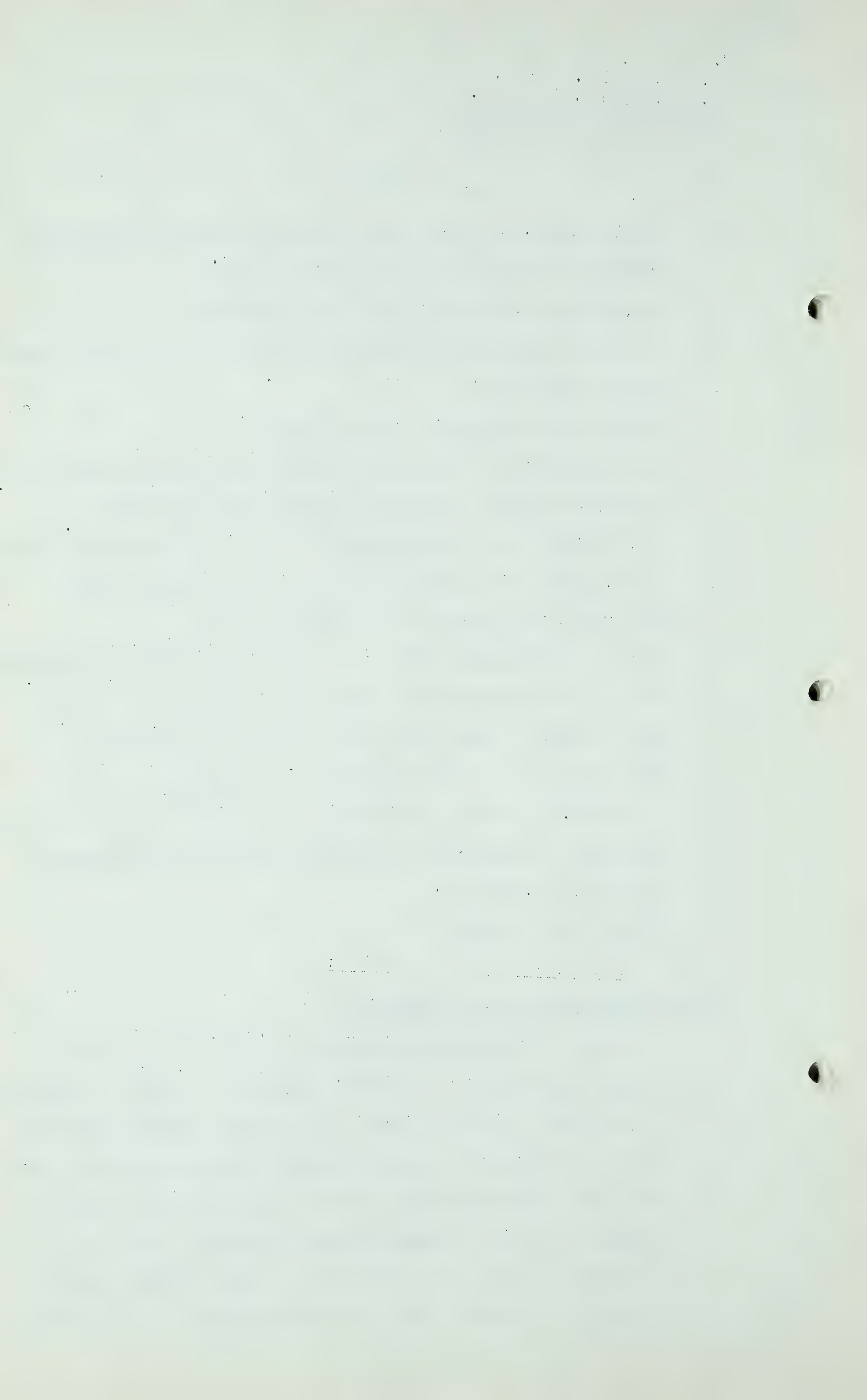
Q Well then, you do not guarantee it yourself, do you?

A I certainly do not guarantee it. I do not see any serious problem. I would not consider it as a serious business risk of any kind.

Q Thanks, Mr. Kernan.

CROSS-EXAMINATION BY MR. FENERTY:

Q I wonder if our misunderstanding is due to the fact that we are looking at a different problem. I want to explain to you what I have in mind. My understanding is that we are considering an application for 100 million feet a day and that the company has stated repeatedly that would be dedicated to the British Columbia market. Now, I am looking at it on the basis that we have nothing particularly to do with a pipe line from Texas to the Pacific



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Northwest and the requirements of the Federal Power Commission, and that we are now discussing the situation which involves, well, it may be an exchange of gas, in effect such transportation of Alberta gas to the market to which it is dedicated, that is, in British Columbia where there happens to be a common carrier or some other equipment. That is a complete picture in itself and all that this Board is concerned with, you have 14 million invested south to the common carrier, a pipe line, north to the common carrier and probably to the Province of British Columbia. That to me is the picture we are involved in.

A But you have to have somebody to carry the gas in between.

Q They will charge for that carriage. Now then, that is the picture, I think, that is before this Board and that is the thing I have been trying to get information on, and that is a picture that you had not thought of or considered.

A I have not looked at figures.

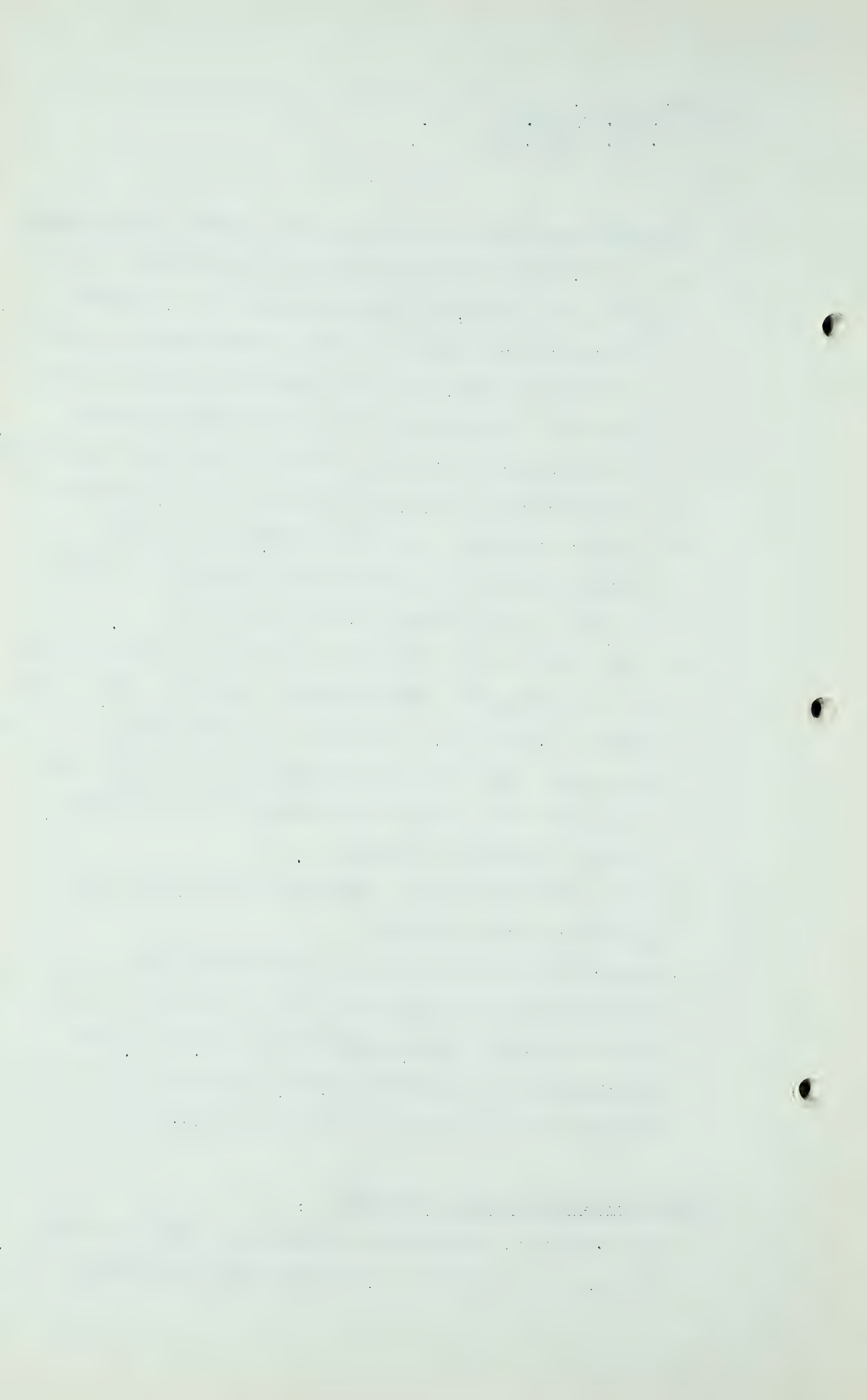
Q If it is not particularly important, why is there an application here to get it?

A Because it involves getting the 100 million feet of gas.

Q Any dedication of 100 million feet that you get here to take it through a common carrier line. Now, if that situation is not important, why are we here? You do not know and I do not know so I guess we will leave it.

CROSS-EXAMINATION BY MR. McDONALD:

Q Mr. Kernan, I just wanted to make sure I had you right. In your investigations, acting for your principals, you



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were furnished figures which you are relying upon. What I understood you to say was that the sale price of this gas, which I assume will include the purchase price of the gas involved plus transportation cost, will range from 30 to 35 cents in the Pacific Northwest?

A I was informed by Mr. Fish that those were the prices to use, between 30 and 35 cents, in the figures which we discussed and on which I base my conclusions.

Q Then as I understand you to say, just before we leave the matter of sales price, and that was a general price over the area which was to be served?

A That is right.

Q Did your discussions include a particular price, a particular gas company?

A That is not very important.

Q No, I know it isn't from the overall financing.

A The answer is no.

Q The answer is no. Now then, as I understand it too, that the matter of transportation costs and the question of investment plus the question of operating costs?

A Plus what you pay for your gas.

Q Just dealing with investment, and we know what it is, you have given us those figures which are gross figures?

A Yes, that is right, and they include estimates for reserve contingencies, which I believe to be essential in a construction problem.

Q Now then, the question of operating costs. I think you referred to the fact that the operating costs that were quoted to you were comparable to operating costs of similar

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lines of similar length in the United States?

A No. I asked Mr. Fish as to whether or not they were and he said that is the way he calculated them.

Q Which is a common and accepted way?

A That is the usual way of doing it before the Federal Power Commission.

Q Then we arrive at the question of the source of supply. As I understand the previous evidence, the price of gas was 8¢ to 11¢ depending on its specific content?

A That is what Mr. Fish told me.

Q There was just one point about that. You were thinking, or he was thinking, I presume, of the ordinary type of sales, of gas purchase contracts, where the gas is picked up at a common point in the field?

A I am sure the prices he was talking about involved clean gas at 1,000 Btu content. I imagine he would have told me if it was otherwise.

Q And picked up at a point?

A I presume so, gathered at a point in the field.

Q Now, what about the price in Alberta that was used in the discussion?

A I suppose the 8 to 11 cents was all inclusive.

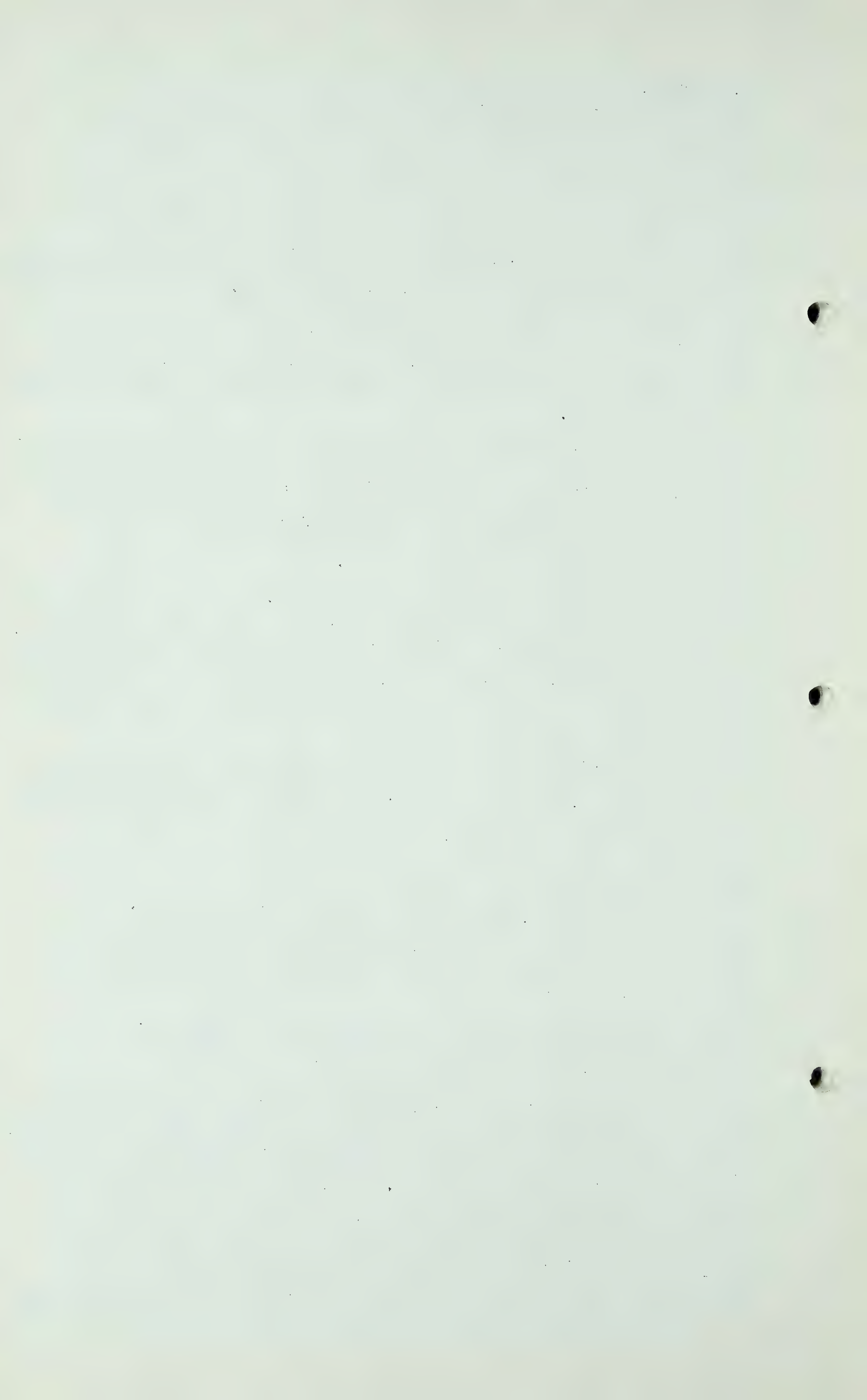
Q Similar type of gas in Alberta?

A He said that would cover all the proposed types of gas used.

Q In just thinking of this phase too, in this matter of delivering gas in Ontario, did you seriously consider the matter of operating costs and so forth of that line?

A The project C. Yes, I looked at figures on it.

Q Could you tell me the range of sales price in Ontario that



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was discussed?

A No. 30 to 35 cents applied in the Pacific Northwest and British Columbia. To be perfectly honest, I forgot to ask him what prices he used in Windsor.

Q So you are not in a position to discuss that?

A No. Obviously it would be a different price.

Q I think that is all.

CROSS-EXAMINATION BY MR. MARTLAND:

Q Mr. Kernan, you told us that, subject to certain conditions, each of these plans, A, B and C, were what you say financially feasible?

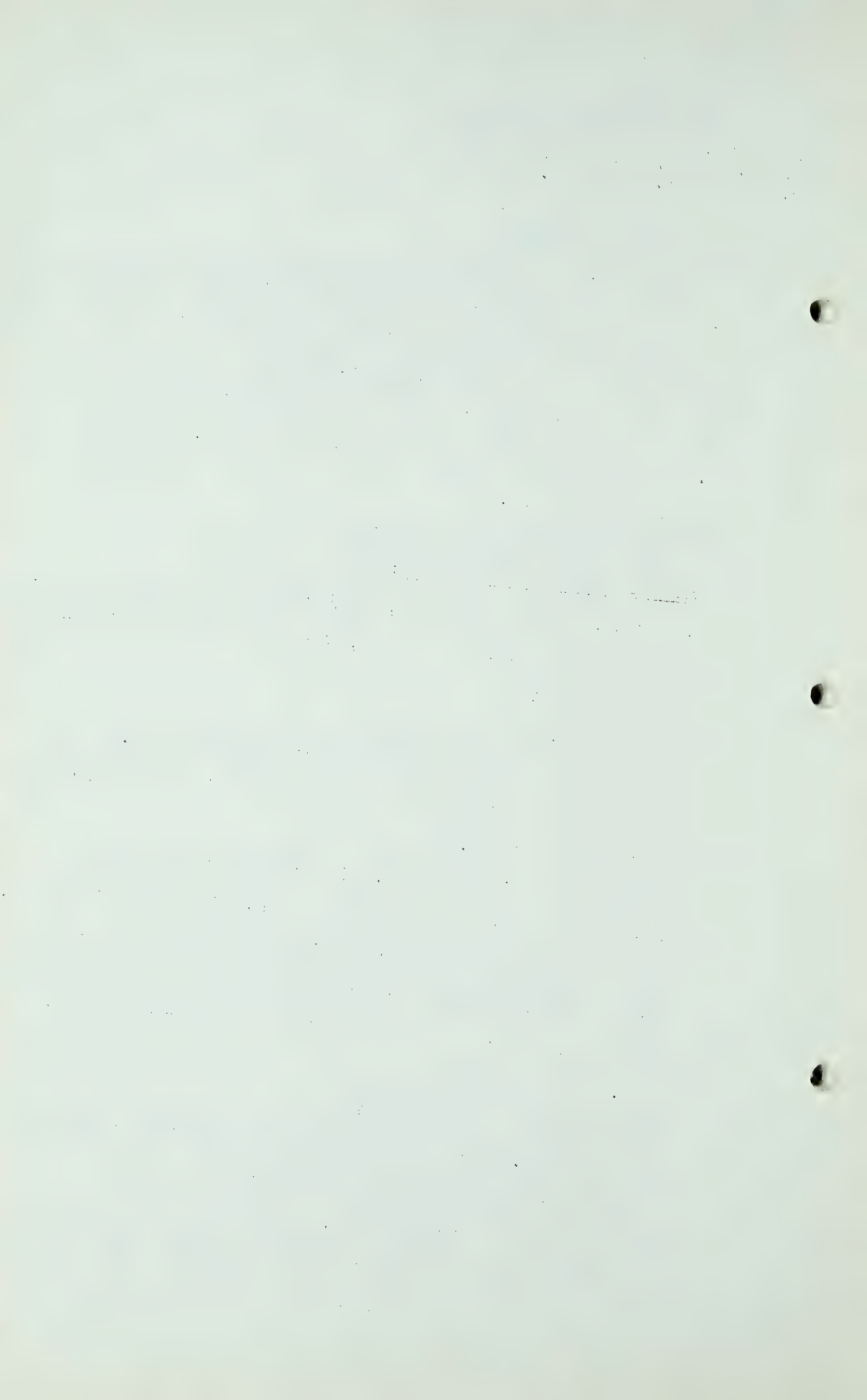
A That is right.

Q Would you mind just listing those conditions again. I think you have them written down there. If you will just give them one by one.

A The reporter took the sheet. I wanted to be awfully accurate about that so I wrote it down. I think I can give them to you. The prices paid for gas and the sale price of gas would be approximately as used in the figures which I have discussed with the Fish Engineering Corporation.

Q Which were submitted to you?

A That is right. That there would be a report on reserves and an appropriate report on deliverability by an acceptable petroleum engineer. I mean, not only acceptable to me but the insurance companies which would have to buy those bonds if they were to be bought. And that



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the sales contracts, purchase contracts, would be in proper form, and that the sales contracts would be with people of good credit. I think that covers everything.

Q So that you have a scheme put forward to you, certain figures and information, and you say provided all of these various conditions are met it is your opinion that the project could be financed?

A That is correct. I do go so far as to say in so far as the estimates of construction costs and the estimates of earnings, assuming the other conditions are satisfactory, I am satisfied for that part of the information.

Q And in due course if you are asked to finance this scheme you are going to ask for pretty great evidence on all of those various conditions before you sign a firm underwriting agreement?

A The Fish Engineering Corporation would know that because we have been through it once before in 1948 for a whole year.

Q We want to know too. That is so, isn't it?

A That is correct.

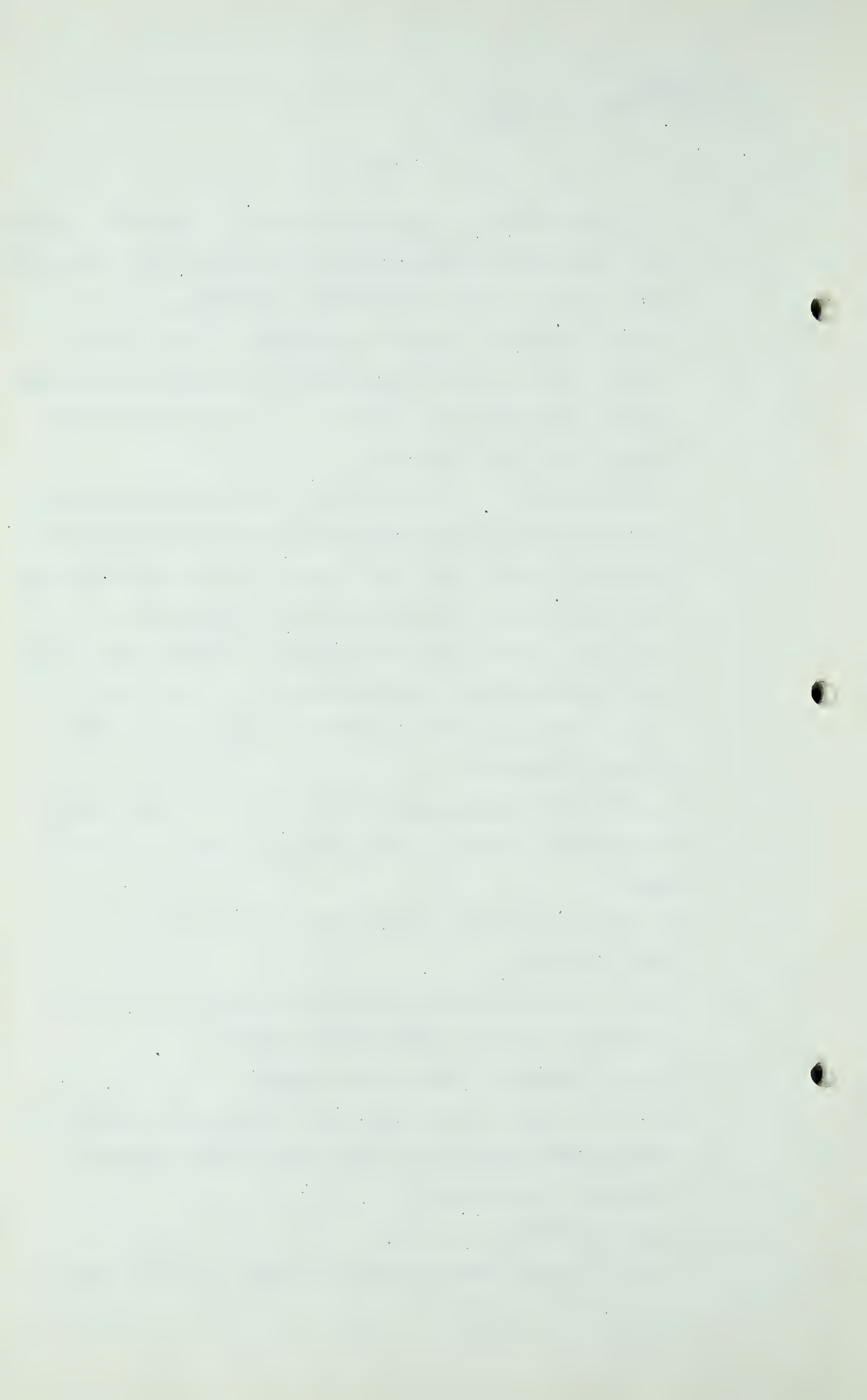
Q And you told us about 75% of this financing would be in the form of first mortgage 20-year bonds?

A I would recommend that to the company.

Q And those bonds on this kind of a project, Mr. Kernan, are generally purchased by the larger life insurance companies, are they not?

A That is correct.

Q And the larger investors in those bonds usually insist



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on certain opinions as to reserves and deliverability and a lot of matters on their own, don't they?

A I say the same points I have talked about already. The things I have said are what they would require in buying the first mortgage bonds, as well as Dominion securities, and ourselves would require if selling the preferred stock and the common stock.

Q And large investors like Manufacturers Life, they would want to put the O.K. on the petroleum engineer or the geologist whose opinion is relied on?

A I think that is true.

Q And without the opinion of a man whom they regard as satisfactory, they would not undertake to finance it?

A I think that is true.

Q Now, just tell me briefly, if you do not mind, just what is involved in each of these projects, A, B and C. There was a quotation of 192 million dollars in project A?

A That is right.

Q Which I understood was a project which involved the delivery of gas from Alberta?

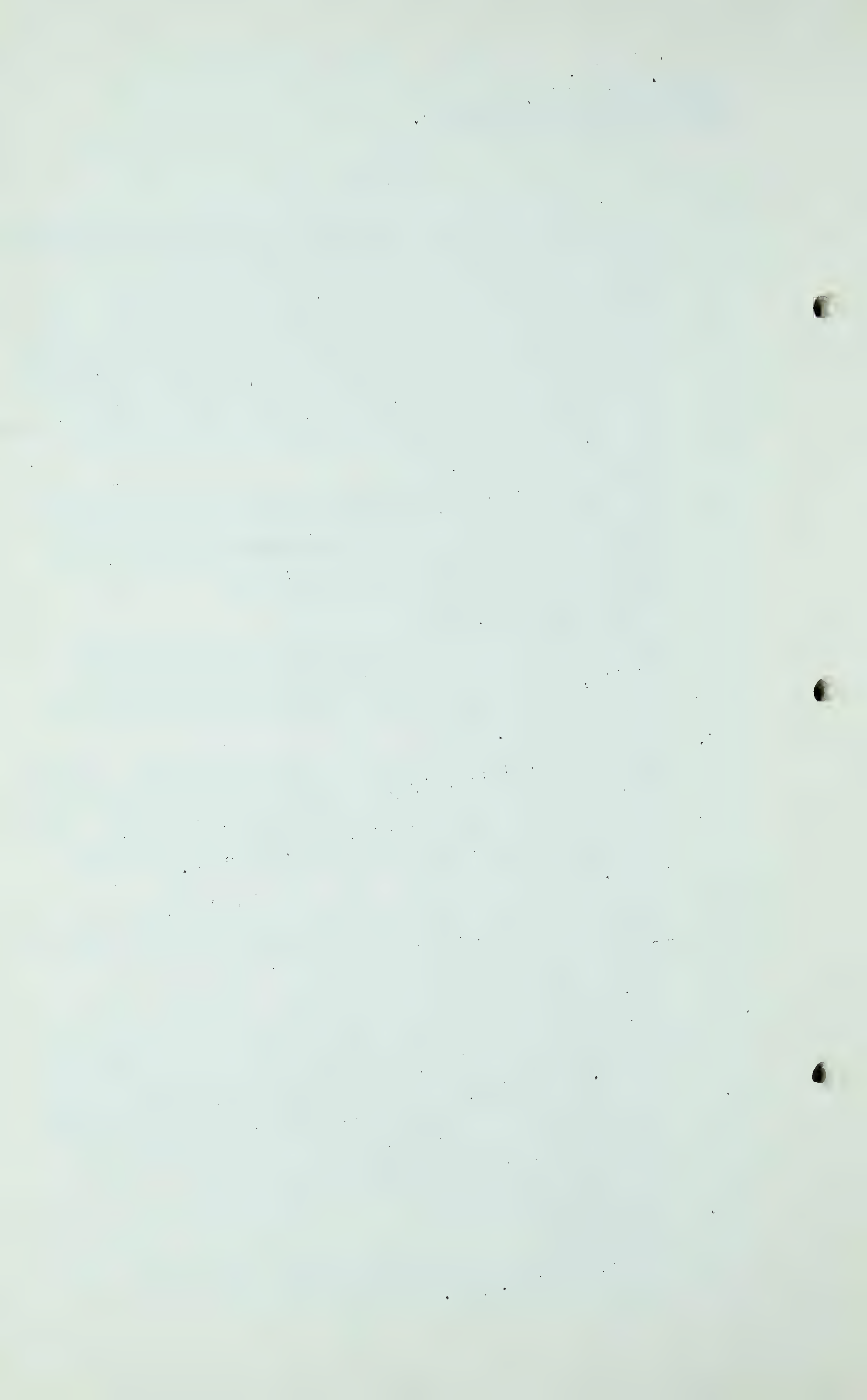
A That is right.

Q Now, can you just tell us which part of that pipe line shown on that map, Exhibit 2, is involved there? First of all, does it include the piece that runs to Pincher Creek and out from Alberta?

A Project B?

Q Project A.

A Project A would include that, yes.



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Q That is within the 192 million?

A That is right. Project B would not include that and would be 198 million.

Q But project A starts down at Houston and runs up. Does it include those laterals to Salt Lake City?

A Yes.

Q And the others?

A That is my understanding.

Q And all the pipe lines which are shown from Canada, including the lateral up to Trail and so on?

A That is correct.

Q Project B, which is somewhat more extensive, does not include any gas from Alberta?

A That is right.

Q So that all of the pipe lines shown there involving the transmission of gas from Alberta are not included?

A That is right.

Q And the extra cost, I suppose, is because of the increased size of the line?

A Yes, or additional compression, one or the other.

Q And then Project C is really Project A or B plus this so-called lateral?

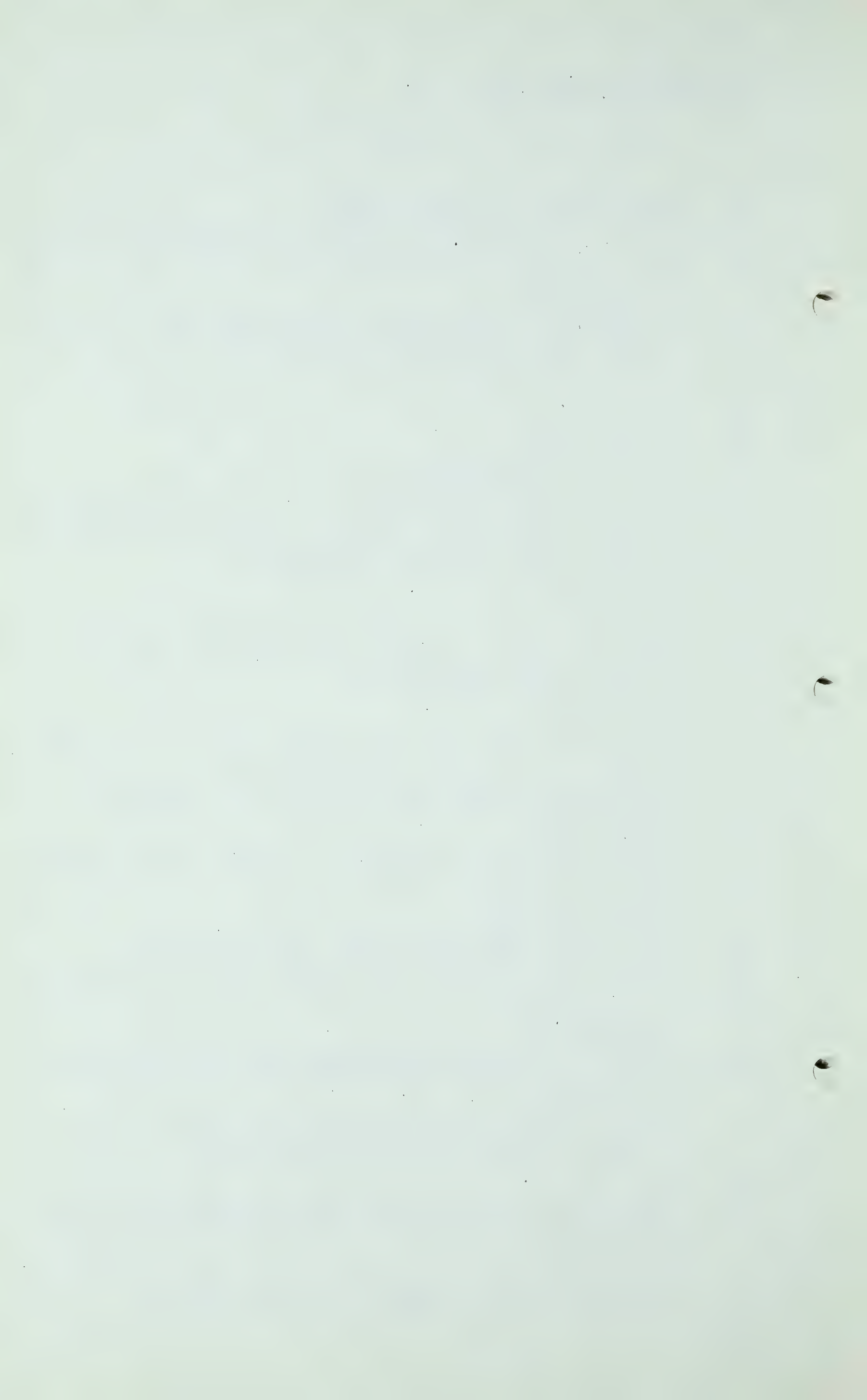
A Project A plus what I would think of as the Enid cutoff into Oklahoma.

Q It does not include anything beyond Windsor?

A No.

Q Have you had estimates as to costs beyond Windsor and up into Canada?

A I have not discussed that in too great detail.



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Q That is something that is a later phase?

A It is a phase too and really would come into immediate effect, I should imagine, although you never can tell how soon a thing is going to go into effect.

Q You have not concentrated on that too much?

A I have been doing what the company asked me to. I am employed by the company.

Q You are employed by which company?

A I would be employed by the Pacific Northwest Company.

Q Well, are you giving this as your opinion here today?

A My opinion.

Q Or the opinion of your investment house?

A The opinion of my firm. I am a general partner of that company.

Q Your company would be speaking here when you speak?

A Yes. I have signed my name to things that they have been bound by.

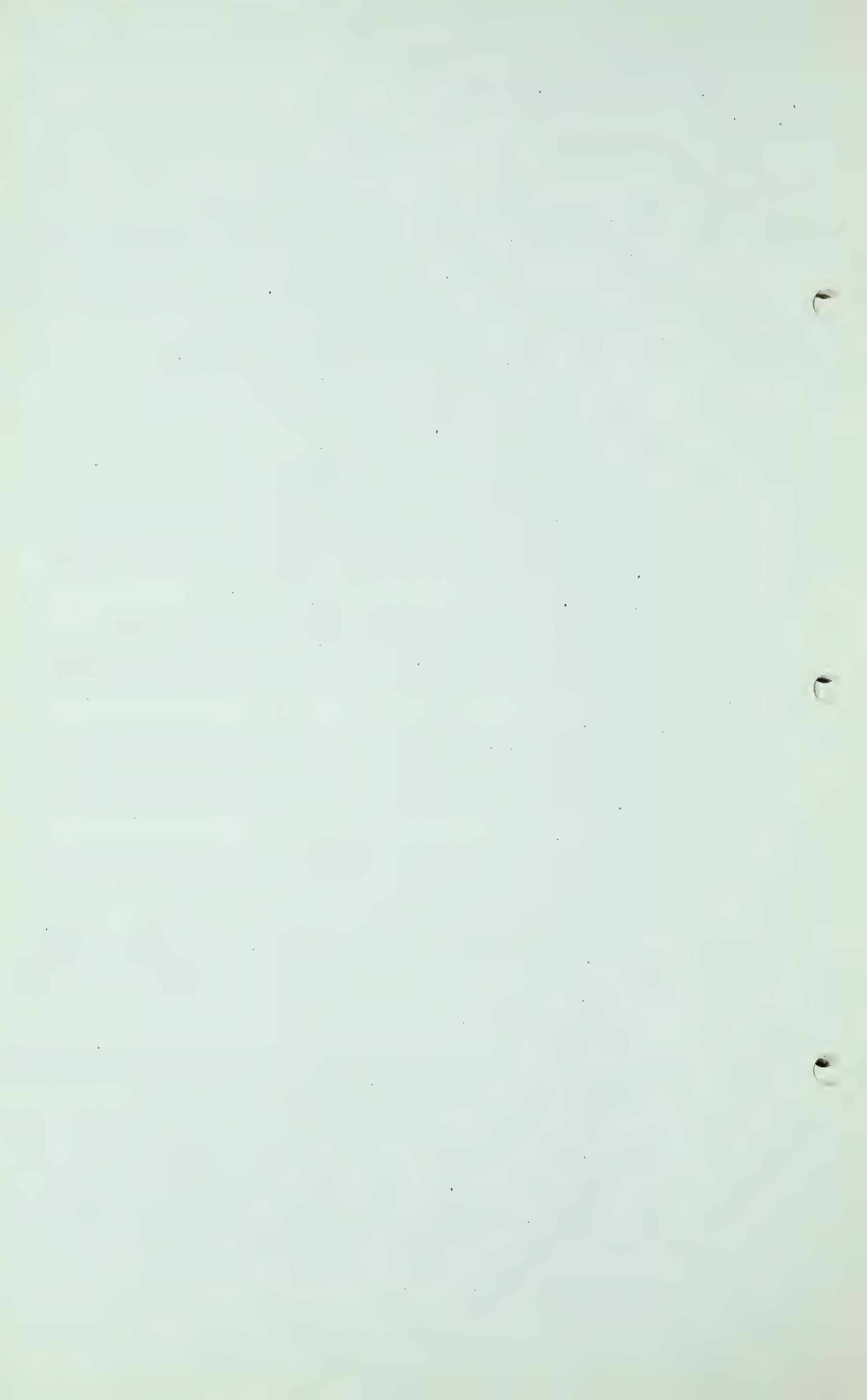
Q And there was not a great deal of discussion about this project C as yet?

A Well, I have looked at figures on it and I have no doubt that, subject to the other conditions I have stated, that it is feasible.

Q Have you had figures submitted to you as to the approximate markets in the Provinces of Ontario and Quebec?

A No, I have never seen a market survey there. I think the estimates he possibly took were 250 million feet a day and I can not even tell you on what load factor they were.

Q Have you seen any forecast as to what the market might be in 5 years' time?



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A No, but it probably would make your head swim if you did.

Q You have not seen it?

A No, but I have seen what happened in the New York area.
We went in there and had a hard time selling those people gas and we hardly got the line started when everyone wanted to double their take.

Q You want something more concrete than that?

A It would be subject to contracts, not only someone's forecast but contracts.

Q Did you have any information provided to you as to approximate sales prices in the Ontario and Quebec market?

A I do not recall that I did.

Q I see. So that there is still a good deal of information which you are going to need about this Project C before you are going to say positively that it can be finalized?

A Well, that is true about A and B to the extent that I would have to have contracts.

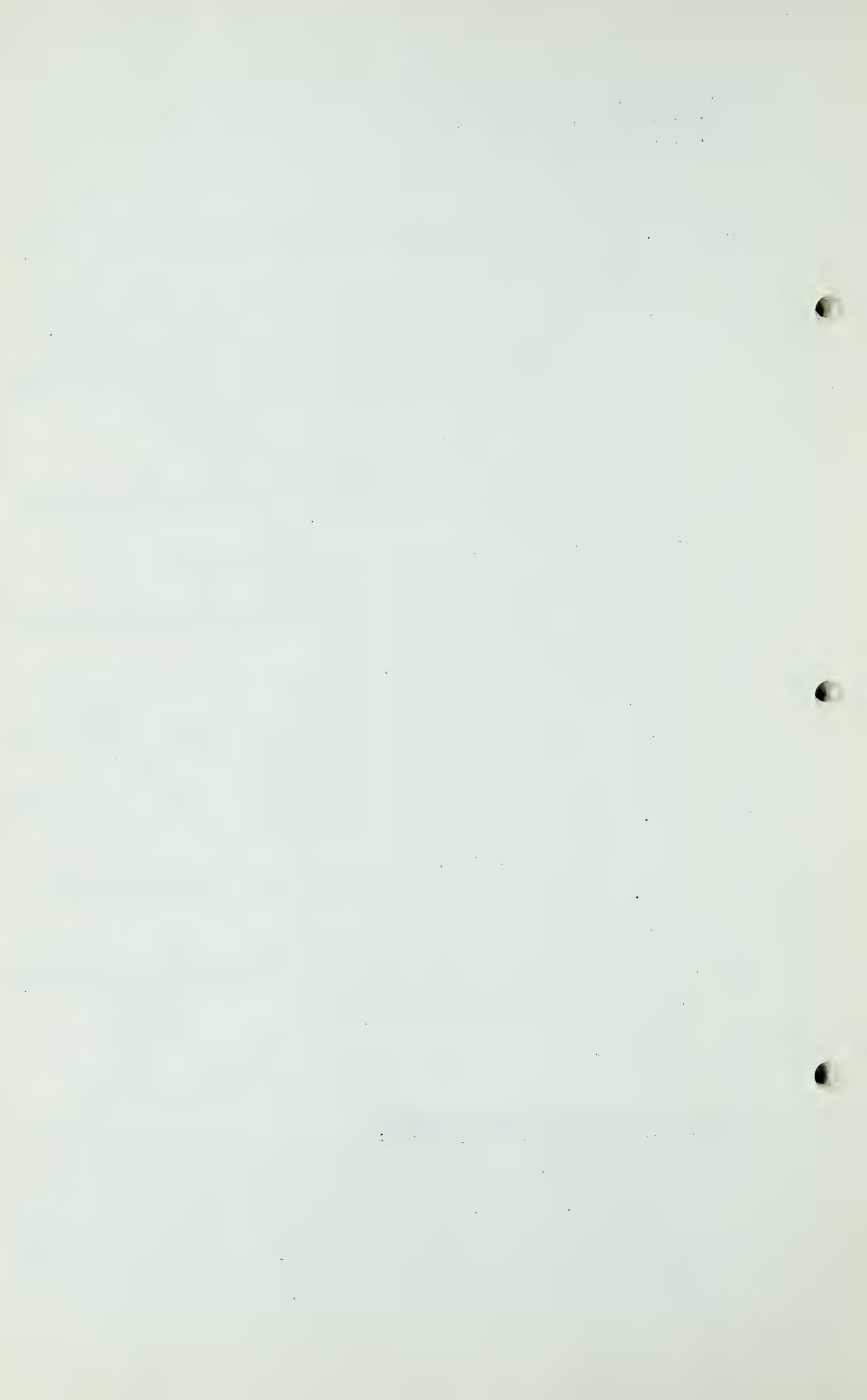
Q I see. C still requires more than you already have with regard to A and B?

A I do not imagine it would take very long to put it together if you have the gas available.

Q Thank you.

CROSS-EXAMINATION BY MR. McDONALD:

Q Just one thing. I do not want to misunderstand your evidence, Mr. Kernan. I would like to discuss again this matter of 30 and 35 cents sales price. I think you agreed with me it was a general sales price. What I was thinking



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of, was the area of 30 to 35 cents. I was thinking of the Pacific Northwest area itself, say starting at Spokane and west to the ocean including the B.C. point of Vancouver. Now, was I right that that area was the 30 to 35 cent price?

A No, I did not discuss any areas in detail when I answered you before, Mr. McDonald.

Q The point is this, you are going to be dropping load on this line as you are going along, Denver, Salt Lake City, the load is going to be dropped, and at Arco and a number of other points. Are they included in this general price of 30 to 35 cent sales in those areas?

A Except for Colorado Inter-State. The Colorado Inter-State price, I am not sure what that price is. That might be less than 30 cents although I am not sure of that. I am not sure if Mr. Fish thought about that Colorado Inter-State price.

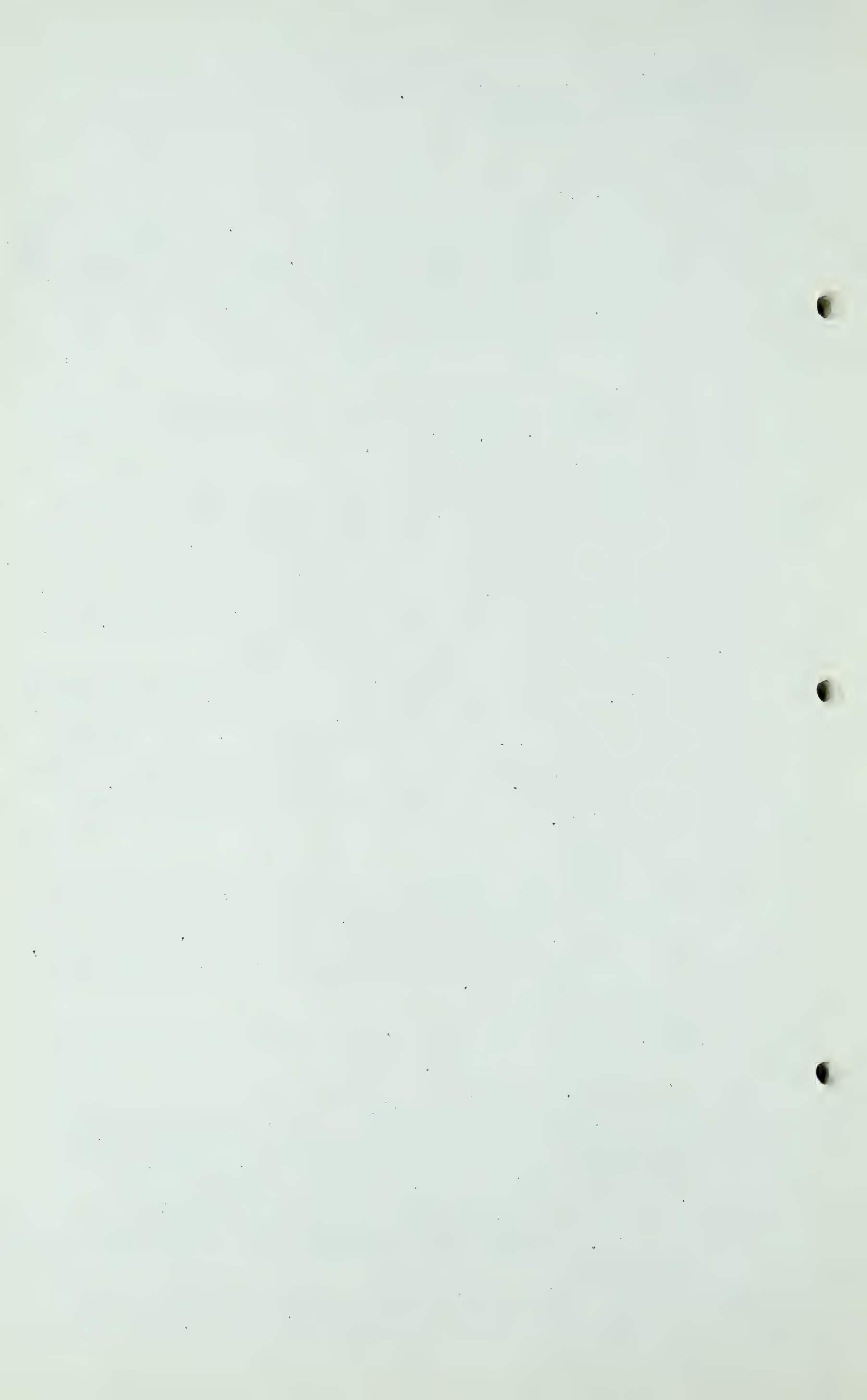
Q The reason I am interested in it is this, the question of selling at Seattle or Portland, for instance, at 35 cents, is one thing, and selling at Seattle and Portland at 30 cents is another one.

A The costs in Seattle are \$1.22 so there is still quite room for help in Seattle.

Q Yes. I mean, apart from that. The revenue to the pipe line company at 30 cents is a great deal smaller than it is at 35 cents. I mean, that is self-evident?

A Yes, that is something the Federal Power Commission concerns itself with.

Q The next point I was coming to, though, is this, if you



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sell at 35 cents you are going to sell a lot less gas than you do at 30 cents?

A Not if you have 100% load factor already. It all depends on how much gas you have to sell. As I say, if Seattle gas is to be \$1.22 per 1,000 Btu gas I think they would buy all they can get from us whether it is 30, 35 or 40, don't you?

Q Well, it is hard to say. The only point I am thinking of is this, we had sworn evidence here by a group of people having a great deal of experience in selling gas in these areas and they have indicated rather definitely 35 cents in Portland and Seattle particularly.

A With the confidence I have in Fish Engineering I can not believe that they have not taken that into account.

Q Well, that answers in part my question. Now, you will want to know a great deal more about the market situation, I take it?

A I want to see the contracts.

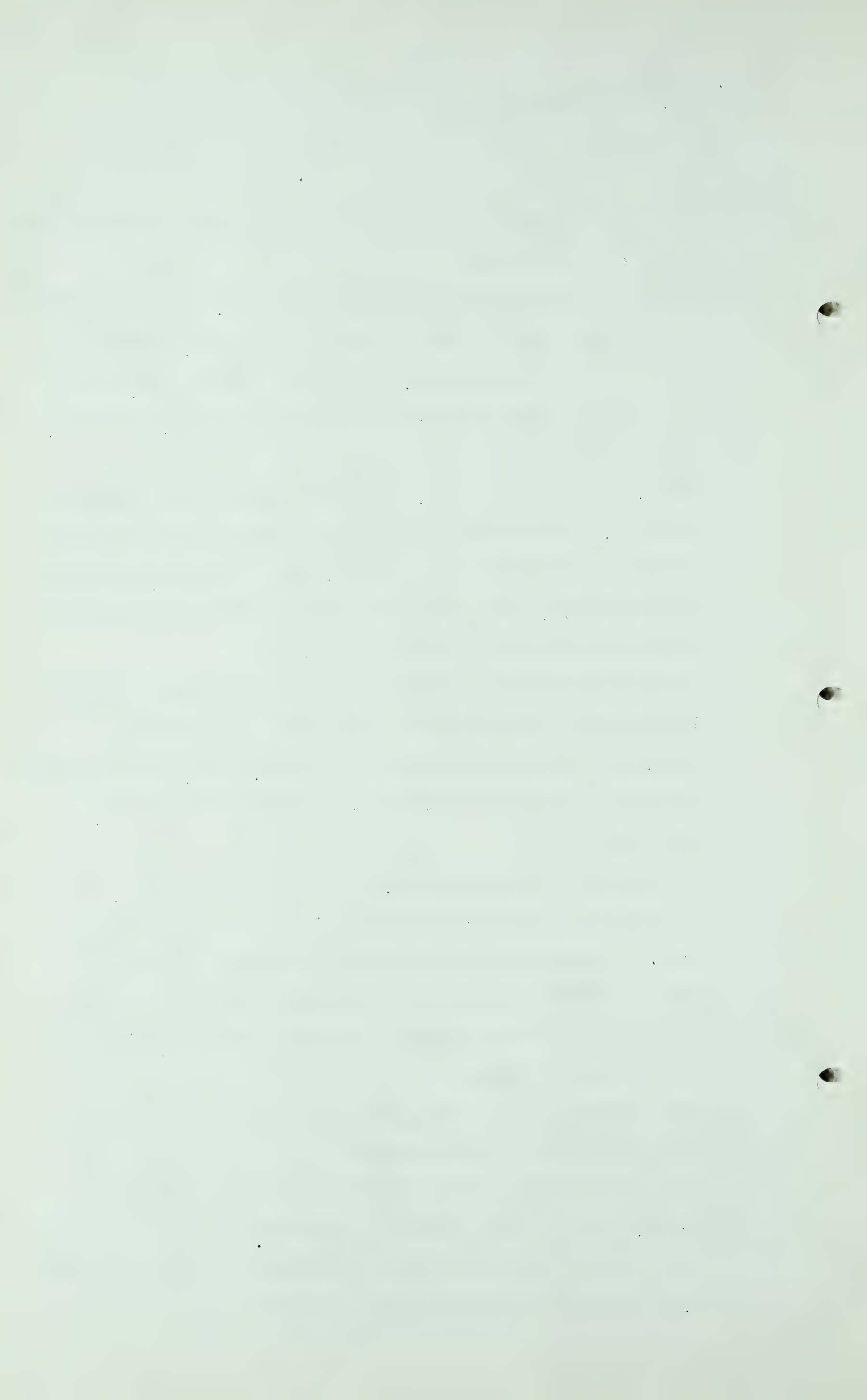
Q You want to see the contracts?

A Sure. It makes sense to me that these utilities would want contracts at the prices being discussed but I want to see the contracts before the money is put up. So will the insurance company.

Q The conclusions you have given us today are based on a 85% load factor as the lowest?

A I believe the figures I looked at were on an 85% load factor, some of the figures I looked at.

Q And they were based on market estimates in line with what Mr. Herring has indicated to us today?



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A I presume so. They were prepared by Fish Engineering Corporation.

EXAMINATION BY MR. C.E. SMITH:

Q Just about two questions. I take it, Mr. Kernan, in addition to all the conditions you mentioned that you required before you loan the money would be a permit here?

A Oh, yes. 100 million feet of gas for plan A or C would be essential.

Q You intended to include that?

A Yes.

Q And you have read our Act?

A I would not be here except for that, of course, sir.

Q You have read our Act, haven't you?

A No, I am not too familiar with the terms of your Act.

Q Would you loan 192 million dollars without reading this?

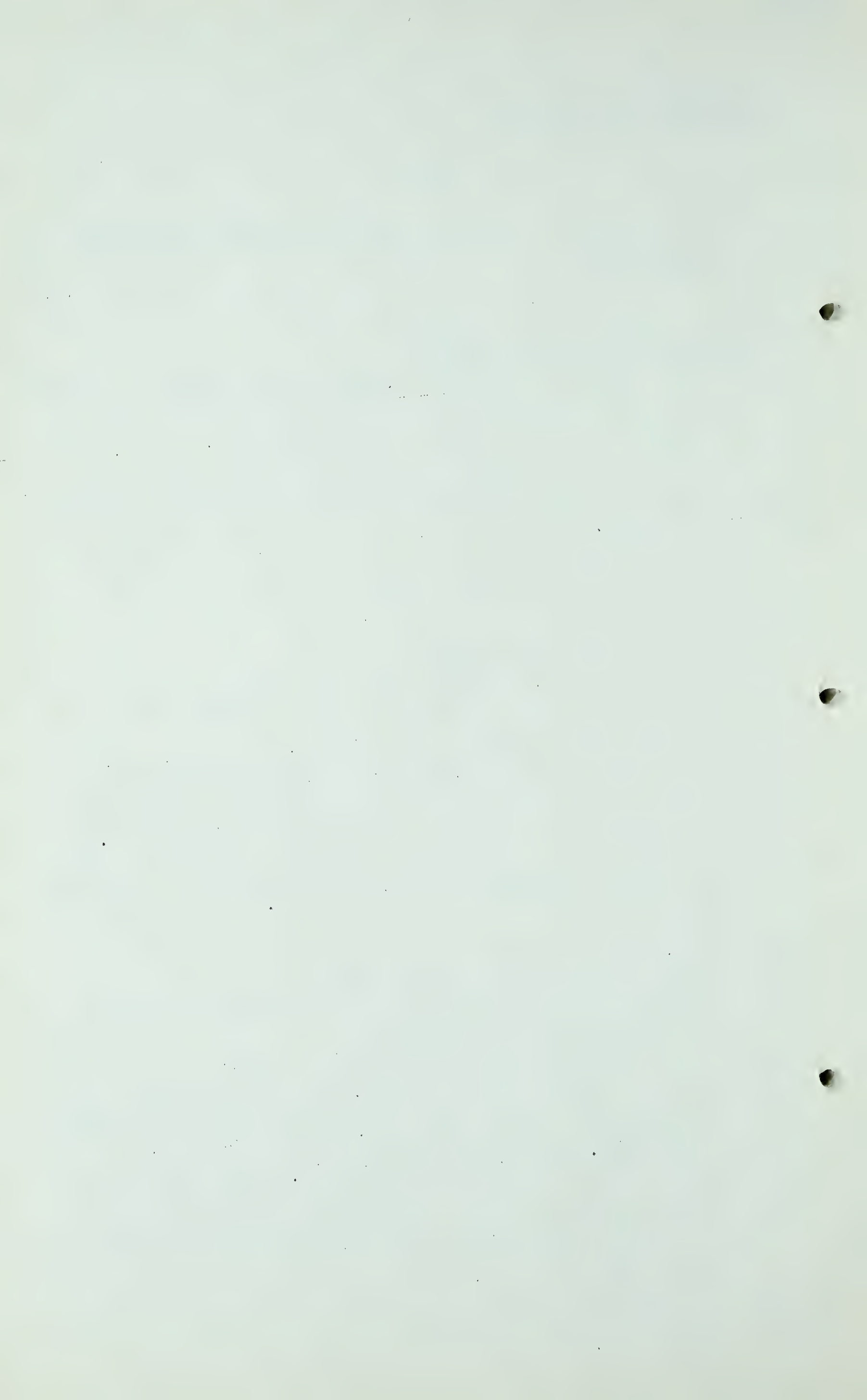
A I would have to have lawyers' opinions. The Board would be fairly satisfied. I would not be qualified to pass on that.

Q Some lawyer told you the contents?

A I would not be too sure if I did read the Act because I am not qualified to interpret it.

Q It is not very difficult to read, it is in English. But you know, Mr. Kernan, that the primary, almost the primary reason for this Board sitting here is to protect the people of this Province with respect to their present and future needs of gas. You know that about the Act, don't you?

A Why certainly.



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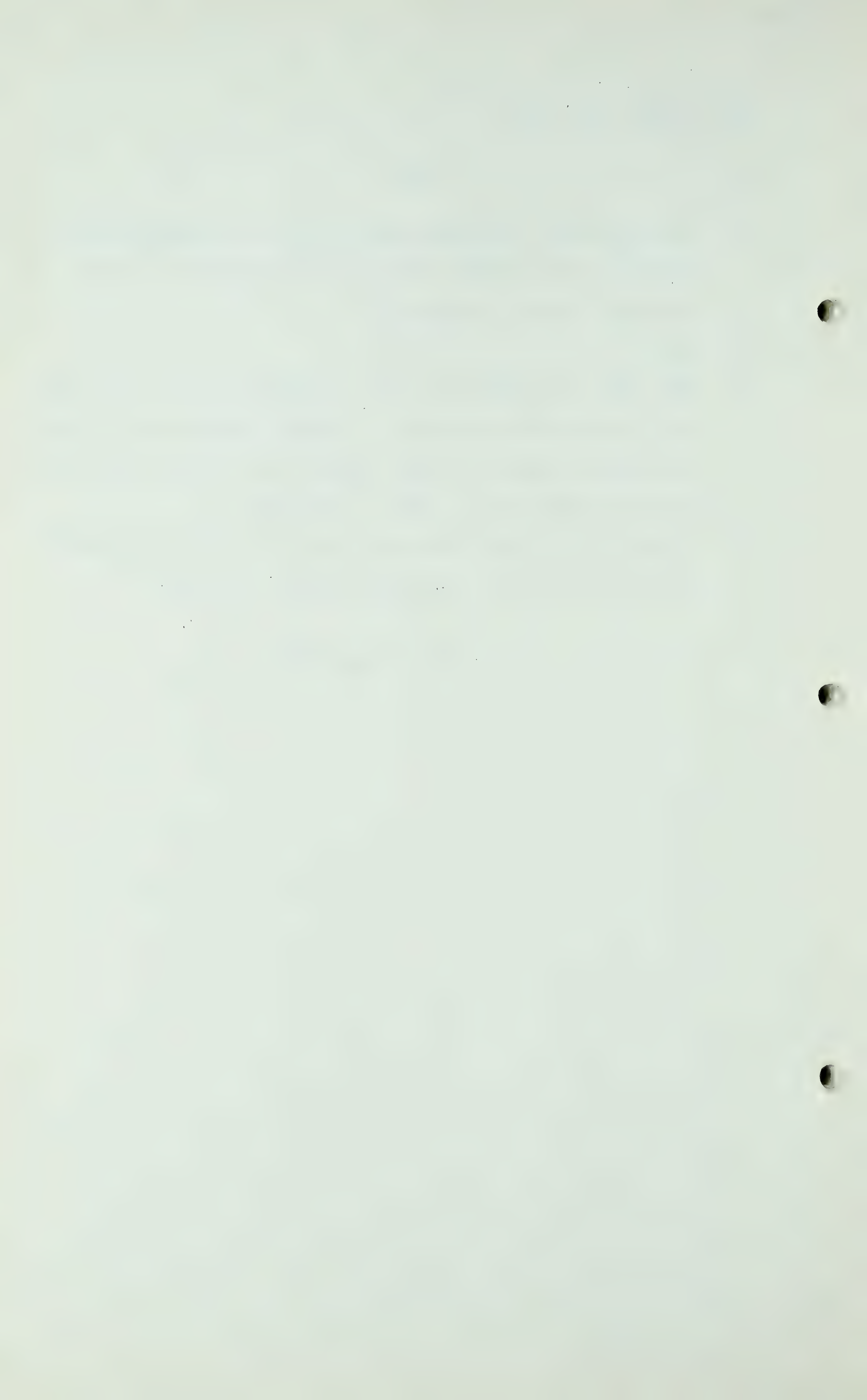
Q Would you put yourself in the position of advising this Board in the same way that you would advise your own company? Do you follow me?

A Yes,

Q And loan 192 million dollars, in advising this Board what they should do with respect to their primary duty of protecting the people of this Province for their present and future needs of gas. Can you help us?

A I certainly am not qualified to at all, but a great way of getting gas is to furnish a market therefor.

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Q Oh, no.

A It encourages the people to do quite a bit, you know.

Q Well, put yourself in the position of advising this Board?

A Well, I am not qualified to do so, sir.

Q I say if you are qualified to advise the people to build a line worth \$192,000,000.00 you should be able to assist us somewhat, or can you?

A Well,...

Q I am not being unfair, am I? I think the Board would like to hear from some of you financial people and correlate their responsibility to yours?

A You are asking me to make a speech, which I do not want to do.

Q This is the first time that I have ever heard anybody refuse to make a speech from down there. I am serious, Mr. Kernan, in that. I thought you might help us?

A I think without any question the primary function of this Board is to be sure that the local communities have gas, but have a look at what happened in Texas and Louisiana.

Q Tell us how they are going to be assured, by what kind of evidence?

A I think one of the best ways to be assured of a supply of gas is to provide a ready market for it at a good price. It is the law of supply and demand.

Q Suppose you are lending \$192,000,000.00 to somebody who says that there will be a market for gas?

A That is one of the very important factors.

Q You wouldn't do that?

A I am going to sign off here because I am not qualified.

Q What experts are you consulting with respect to the geology

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and the question of reserves?

A I haven't consulted any.

Q White, Weld & Company would want to consult somebody?

A Yes.

Q But you don't know who it would be?

A No.

Q All right.

.....

RE-EXAMINATION BY MR. S. B. SMITH:

Q Mr. Kernan, I would like to ask you a few questions about this 100 million feet that Mr. Nolan was talking about.

A Pardon?

Q I would like to ask you a few questions about this 100 million feet that Mr. Nolan was talking to you about?

A Yes.

Q Isn't it a fact that unless and if the Province of Alberta is disposed to export 150 million cubic feet, that there is no problem?

A In your line from Texas, that is 250 million feet, and the Company would be taking 100 million feet from Alberta, and of the 250 million feet 150 million feet is sold by the time you get to the Canadian border, isn't that right? I am trying to clarify myself here.

Q Yes, I see?

A Well, that would mean that your markets were taken care of, and it would appear to me until you found a way to use that other 100 million feet, you would have your problems.

Q The other 100 million of the 250 million?

A That is right.

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Q Yes, but until there is in excess of 150 million then you have no problem about the additional 100 million, have you?

A Until there is an excess of 100 million? I don't know how you get your 150 million, but maybe I am just being stupid.

Q I say there is no problem about the disposition of that additional gas if by the time it is available the load, that is the market available, has increased in the Pacific Northwest?

A I don't think there is any problem. I said it two or three times. It isn't anything that would worry me any.

Q No?

A No.

Q And equally there would be no problem if by the time the additional gas was available the lines to Victoria were built, would there?

A Oh, absolutely, there would be no problem at all.

Q I would like to ask you this, you said, I think, that you were thoroughly experienced with the Fish Engineering Company, I think it was in relation to Transcontinental Gas Pipeline Corporation?

A That is right.

Q And I suppose you there considered their estimates as you have here?

A Yes, that is right.

Q And you gave evidence before the Federal Power Commission, as you are giving evidence here?

A That is correct.

Q And you laid down conditions there?

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A Yes.

Q Did you lay down simpler conditions to what you are laying down here?

A That is correct.

Q And the Fish Engineering Corporation complied with all of the conditions that were laid down by you and your firm in connection with Transcontinental Gas Pipeline Corporation?

A It was the Transcontinental Gas Pipeline Corporation but Fish Engineering Corporation was their engineering company and assisted them in various matters.

Q All right, thank you.

THE CHAIRMAN: Thanks, Mr. Kernan.

MR.S. B. SMITH: I wonder, sirs, if we could have a short adjournment just to consider what we might go on with.

THE CHAIRMAN: I have been asked by the Court Reporters, as a matter of fact, to see if we might get through around four or four-fifteen. I believe this is the last man on shift now. I wonder if it would be possible to do that.

MR S.B. SMITH: If we might have five minutes to consider our position now?

THE CHAIRMAN: All right.

(Hearing resumed after short adjournment).

MR. S.B. SMITH: Mr.Chairman, and members of the Board, we had intended to call as our next witness Mr. John O.Galloway upon the geological aspect of the matter, and his brief has already been filed and has been handed to other Counsel, but it is obvious that in the next five or

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ten minutes we could make no substantial progress with his evidence, and I take it we are within the limits of the Board's directions given on the 28th of September if we leave his evidence until the sittings commencing on October 30th.

Now, if the Board is content with that, the other question which arises is whether we re-assemble next Monday, the 16th of October, to continue with and complete the case of Prairie Pipelines Limited upon subjects other than those subjects particularly allocated to the sittings of October 30th. It does appear to us at the moment, that the remainder of our evidence is comparatively short, and it does appear to us that it might be more convenient to adjourn until the 30th of October rather than re-assembling on the 16th for a comparatively short sittings. We expect that the evidence upon the main part of our case that is remaining will be comparatively short, but in view of the fact of our suggestion about adjourning is made partially, at least, or substantially for the convenience of all parties, we would like a little bit of latitude in that respect, so that we might be able to wind up properly our case.

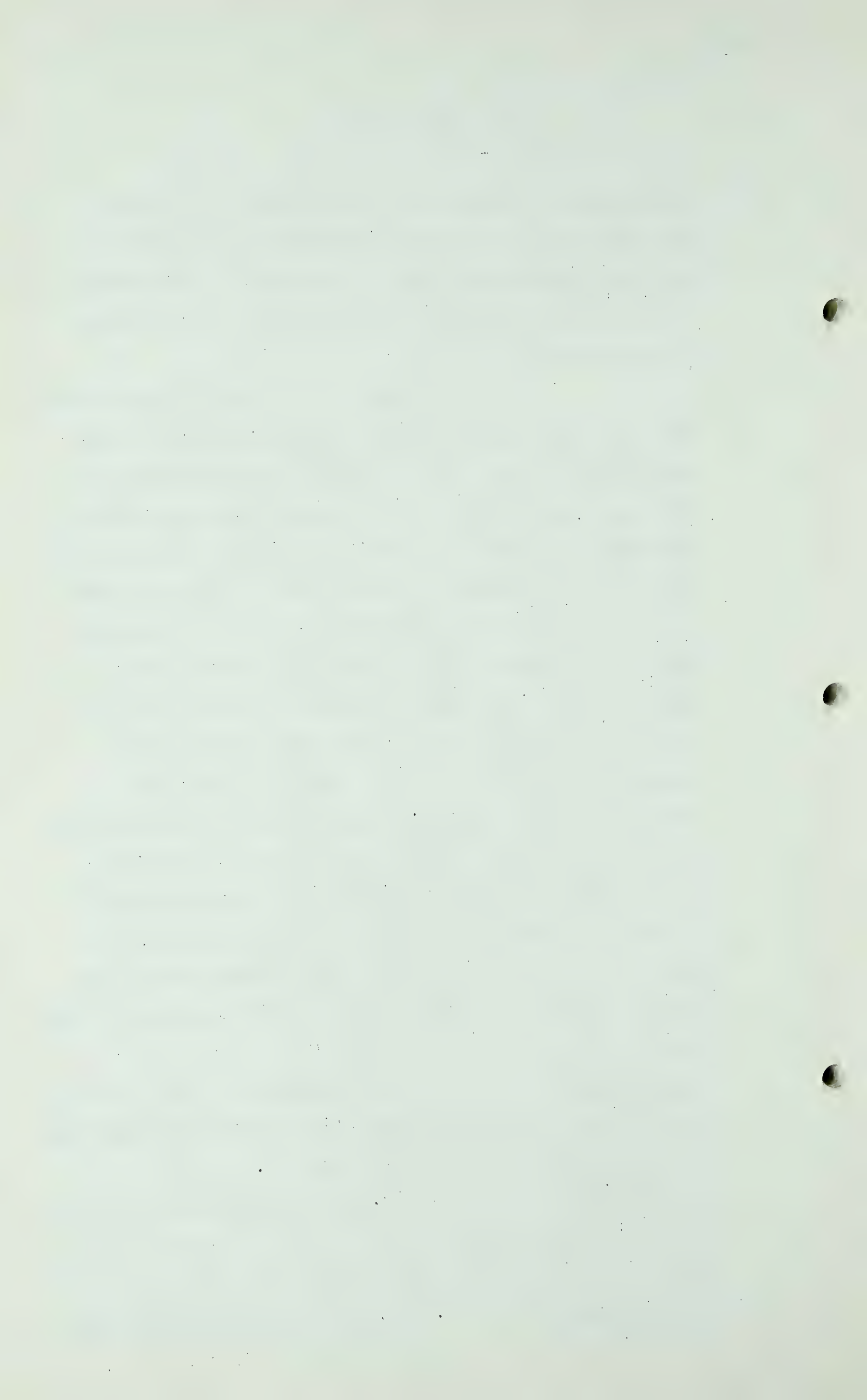
THE CHAIRMAN: Your suggestion is then that we adjourn until October 30th and hear from Mr. Galloway then?

MR. S. B. SMITH: Yes, sir.

THE CHAIRMAN: And you hope in October then to complete your case?

MR. S. B. SMITH: Yes, sir.

THE CHAIRMAN: That is all right with the Board.



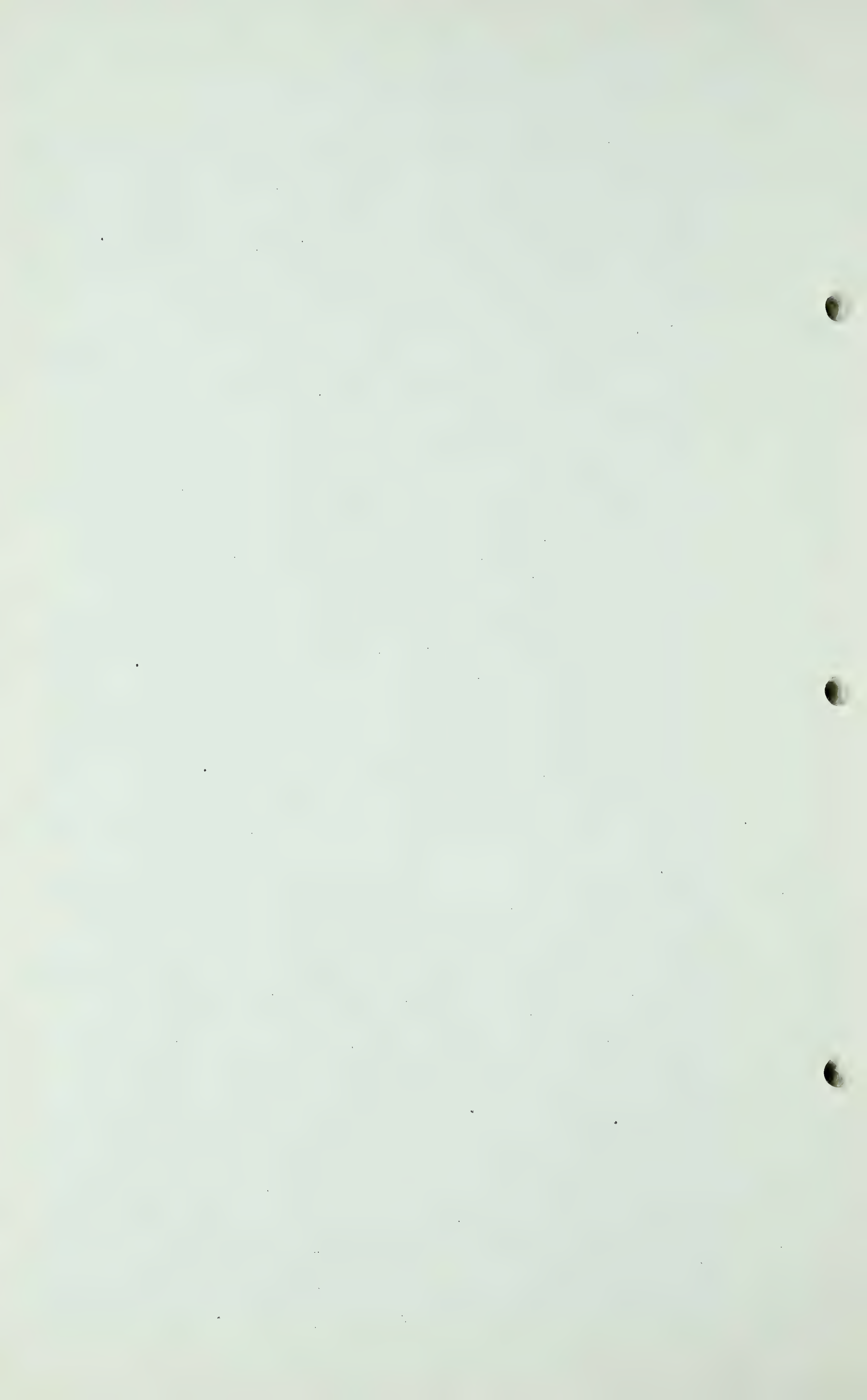
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Is there any Counsel here who would object to Mr. Galloway not being called now? I presume, Mr. Smith, that when you lead evidence at the joint hearing that it will conform as far as possible to the statements made by the Board as to what it would like to have at that date?

MR. S. B. SMITH: Yes, sir, that is our intention; but, on the other hand, the suggestion that we close our proceedings today and adjourn until the 30th of October has been made to us within the past few minutes, and it is rather difficult in the space of a few minutes to assess our position correctly, and just to be certain what we want to do about winding up our main part of the case, that is why I suggested, sir, that it be left open to us to wind the case up at the sittings on the 30th of October, and in that respect we be given a little latitude. It is rather difficult after three days of complicated evidence to suddenly make up your mind and decide that the cut-off line has been reached or will be reached just at a certain time.

THE CHAIRMAN: We are quite prepared to do that, Mr. Smith, to give you time to complete the case, but we would want to be sure that the evidence you would lead with respect to reserves, deliverability, and Provincial requirements would conform with the information we have asked all the applicants to give. It might be that we would want to ask Mr. Galloway quite a few questions, but it is to be understood that you are to be requested to lead evidence in respect of the three points, which will be as complete as possible, and conform with the Board's desire.

MR. S. B. SMITH: That has been our intention, sirs, but I wish to make it very clear that when I suggested that



we adjourn this afternoon, or I concurred in the suggestion that has been made that we adjourn this afternoon, I did not want to be precluded from finishing the evidence upon our main part of the case exclusive of the questions which you particularly allocated to the sittings of the 30th of October.

MR. C. E. SMITH: Mr. Chairman, you made that direction a few weeks ago that any applicant may have that opportunity if he asked for it, and you will be glad to give him that opportunity.

MR. S. B. SMITH: Very well, sir.

THE CHAIRMAN: We will adjourn until the 30th of October.

MR. D. P. McDONALD. May I be permitted to raise a point with regard to the 30th of October?

THE CHAIRMAN: Yes.

MR. D. P. McDONALD: I would not like to see any misunderstanding with regard to the order of the presentation of evidence commencing on the 30th of October. My notes on the discussions we had a week ago indicate that the Canadian Western and Northwest Utilities would start with Mr. Ralph Davis, then, secondly, there would be Mr. Austin Brownie, and the third witness would be some industrial engineer for the two companies, the two gas companies, if they so desired. And then there was to be a representative of the Research Council, then, fourthly, a representative of the Alberta Power Commission, and then the McColl-Union application to be dealt with, the Canadian Delhi application, if they desired to appear, the Northwest Natural Gas Company, and then Western Pipe Lines, Prairie

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Transmission Company, and then Westcoast, and following that the other companies in the nature of producers who may desire to appear. And then following on that the engineers of the Board. Would it be convenient if Mr. Galloway came in at the time set, that would be the ninth item, or will he come in first thing Monday morning, October 30th?

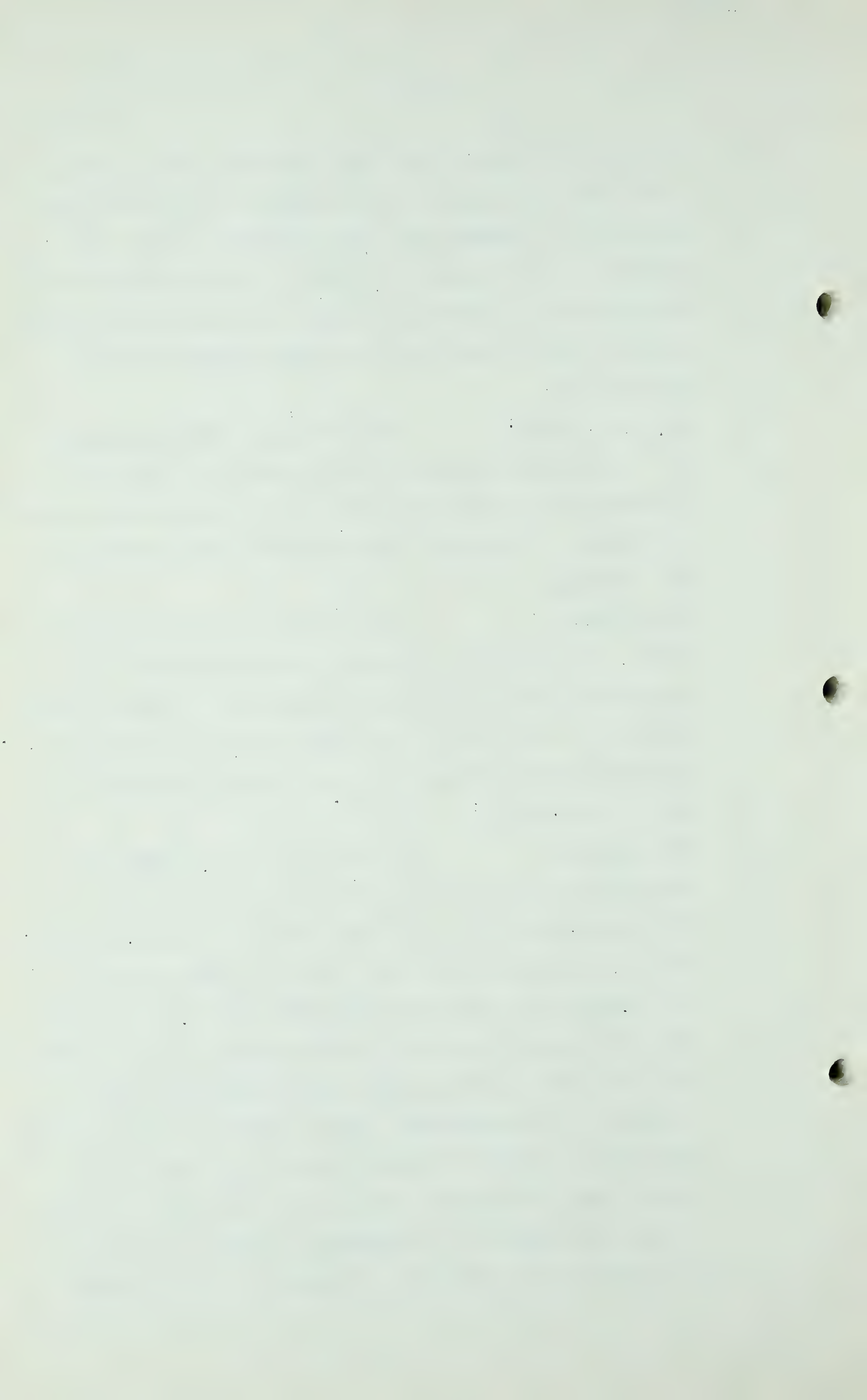
MR. S. B. SMITH: Now, sirs, my understanding of the proposals I had made was that we were going on on October 30th and would complete our case so far as we could reasonably do so at that time, including the evidence of Mr. Galloway.

THE CHAIRMAN: Well, I did not quite understand that. I thought you would take the turn that has been allocated to you by previous arrangement. We have already indicated to the people concerned, I think, and we have notified certain people to try and appear on certain days.

MR. S. B. SMITH: Yes.

THE CHAIRMAN: So that I think we should try and stick to that schedule, if possible.

MR. S.B. SMITH: We will concur in that suggestion, sir. I am sorry to say that for some reason, perhaps, Mr. McDonald has a bit of information that I haven't got about the order of calling the witnesses. I have notes that were made at the informal meeting with the Board, I think, a week ago Monday, and the order of appearance of witnesses is somewhat different from his, although the latter part seems to be in accord with his, and I wonder for the information of all parties whether it might not be advisable if I may make a suggestion that the Board



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clarify the situation and we will all know then just what is expected of us.

THE CHAIRMAN: I thought we had all agreed at that time?

MR. S. B. SMITH: I thought we had, but my notes with regard to that seem to be rather different from Mr. McDonald's except in the latter part. The order seems to be different.

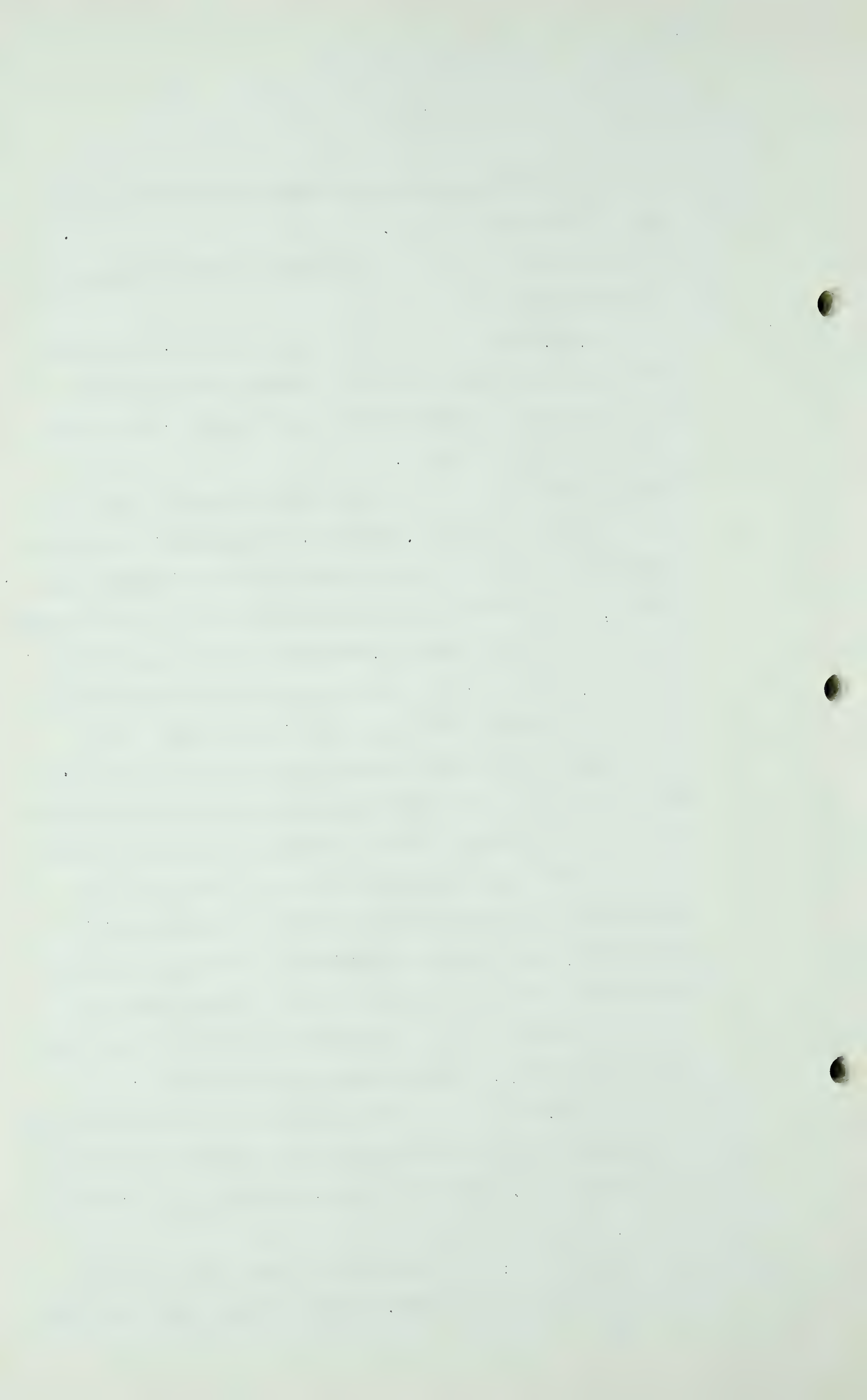
THE CHAIRMAN: I am sorry I haven't got a copy of it with me, but Mr. Patrick, the secretary of the Board, prepared a resume of what he understood was agreed upon. Now, we can have one of those given to each of the Counsel interested right away, or within the next day or so.

MR. S. B. SMITH: That will be quite satisfactory, sir. But could I clear one other matter up? Do I understand the situation then is that so far as Mr. Galloway is concerned, his evidence relates to geology and will fit in in the proper place in accordance with the schedule that has been laid down, but are we to proceed at the beginning of the Hearing on the 30th of October with such additional evidence relating to our main submission as we would have had we gone on next Monday morning?

MR. C. E. SMITH: If there is going to be any doubt about it we should adjourn until next Monday.

MR. S. B. SMITH: There is no reason for doing that. I am going to be in Edmonton and I am asking the Board for information. If you do not want me to get it, I won't get it.

THE CHAIRMAN: We had in mind that you would finish up the case, Mr. Smith, after we had heard the other



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evidence, that is, after we had heard the evidence on reserves, deliverability and Alberta requirements, and then we would give you some time at the end of that.

MR. S. B. SMITH: Mr. Patrick will notify us then, sir, and we would be glad if we could have the list so that we will be able to and endeavour to meet the schedule. That is all I really wanted to know.

THE CHAIRMAN: The schedule with regard to dates will be very difficult to estimate at this time.

MR. S. B. SMITH: Yes.

THE CHAIRMAN: But I think we will be able to tell you the order of precedence.

MR. S. B. SMITH: Just so long as we know that.

THE CHAIRMAN: That is our idea, that we would finish the other evidence first, we would bring in the evidence after we have heard all the other evidence with regard to the three points that we are asking for here. Now, if any Counsel object we would like to hear about it.

MR. S. B. SMITH: We have no objection, sir, speaking for ourselves.

THE CHAIRMAN: We will adjourn then until October 30th.

MR. FENERTY: Could I say a word? You remember I put up my finger when Mr. McDonald was speaking?

THE CHAIRMAN: Certainly.

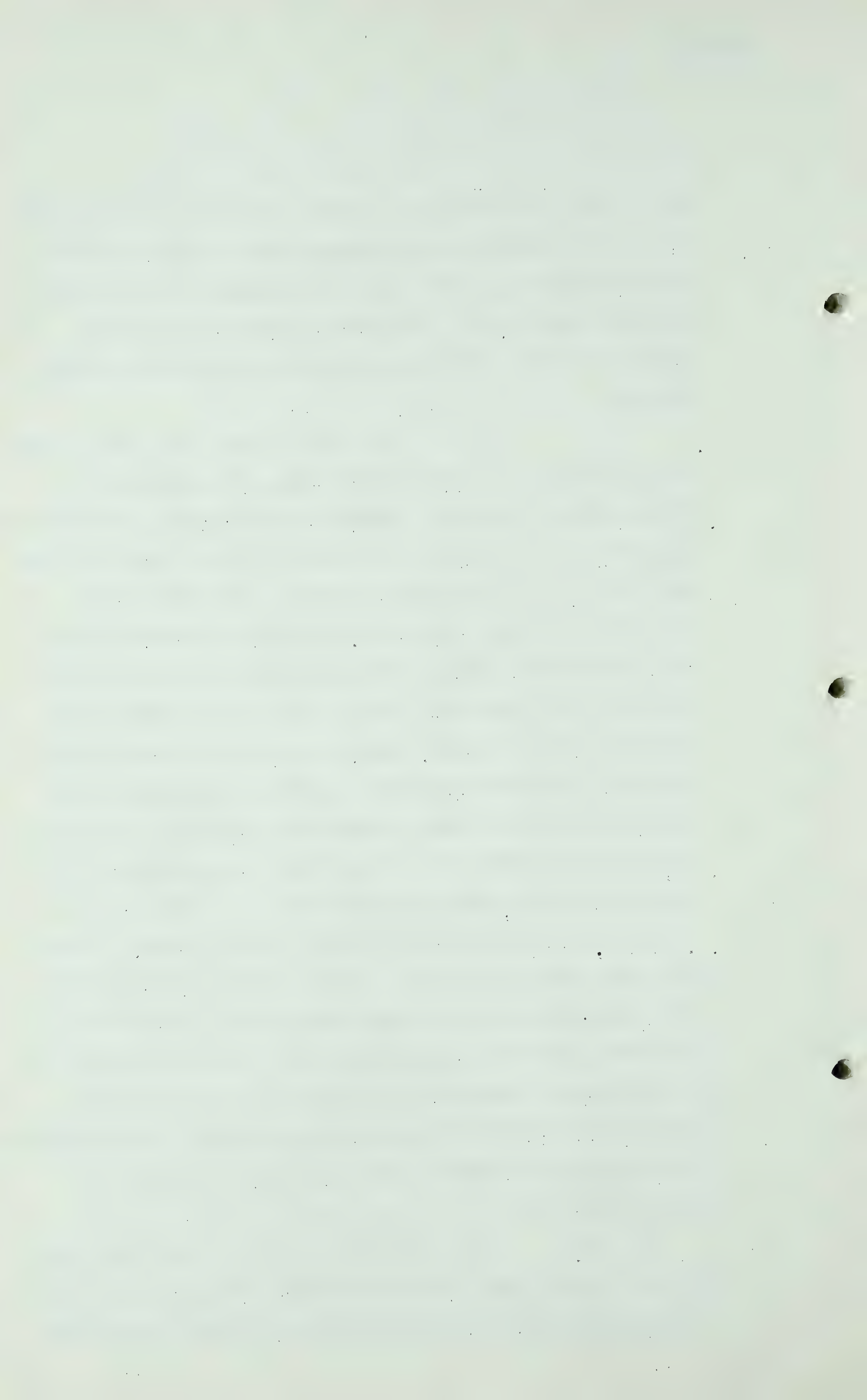
MR. FENERTY: It is with reference to this particular application, and, of course, some of the evidence we might take which would be of assistance certainly to the consumer and possibly to the Board. As far as the application is concerned, I have been very much impressed with

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it. It does present some features which may help to solve some of the problems that consumers have because of the combined nature of them. But, nevertheless, we are just as much interested in the impact of export on this on possible prices, internal prices, as we are on any other things.

Now, today it was made quite clear by Mr. Herring, and I agreed with him, that possibly the Federal Power Commission was the Board that had jurisdiction and, consequently, would be concerned in dealing with Texas gas carried to the Pacific Northwest. In other words, it wasn't very much our concern except in comparing what the requirements were in order to arrive at a proper conclusion, and I agree with that. But, to me, that leaves only one matter for this Board to consider in connection with this application insofar as the present application for 1,000,000 cubic feet is concerned, which the applicant is prepared to dedicate, and says that he has dedicated to the B.C. market, always assuming there is market for it. It seems to me that we have no part in the purchase, transportation and sale of Texas gas to the Pacific Northwest, and that falls within the jurisdiction of the Federal Power Commission, and the only thing we can have a part in as far as this present application is concerned involving gas dedicated to British Columbia is the purchase, transportation and marketing of Canadian gas in British Columbia up to this 100,000 MCF.

Now, I do respectfully submit that if the Federal Power requirements are such, as I understand, that our friends should be requested to submit statistics



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along the lines of those statistics which must be submitted to the Federal Power Commission, and must be available to financial concerns backing that project applied to the Canadian operation which, after all, our friends have also made plain is all we are considering or, at least, all we should consider. We should have it just along the same lines, and then we will know something about the costs, the market, how much you can serve, your load, and all the rest of those things, and we will know something about the impact of export.

I submit it is not good enough for our friends to say they will buy gas at 5 cents or 20 cents, whatever the Utilities Board says; that they must show us what the local effect is going to be, and the only thing we can consider is the purchase, sale, export and market for Canadian gas using this pipe line. Their pipe line will be, in effect, a common carrier. Those are the details that we are interested in. We have got nothing else to talk about. We haven't got to talk about Texas gas, just Canadian gas going down to the border, getting into a common carrier and going up the other way. Is it a good financial proposition, at what price, and so on? I cannot get it into my head. I hope I will get it from cross-examination, but I thought the Board could use more firmness with regard to those suggestions than I can.

MR. C. E. SMITH: I do not think the Board should say much.

MR. S. B. SMITH: It is rather difficult to assemble an answer, but, I would say, sir, briefly, that we are endeavouring in the presentation of our case to adduce such

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evidence as we consider relevant and as we consider will be of value to the Board in considering the problems with which it has to deal, and we are doing the best we can in that respect and we will continue to do the best we can, sir. And if I do not entirely satisfy Mr. Fenerty, I am sorry, but I do not suppose we can ever satisfy everybody. We are doing the best we can to comply with what we understand is the meaning of the legislation and the directions of the Board, sir.

THE CHAIRMAN: Mr. Smith, you have no other evidence with regard to costs?

MR. S. B. SMITH: I would like to be able to answer the question specifically but, as I say, we have had three days of very complicated evidence, and I try to carry what I can of it in my head, but I am afraid I am not prepared just at the moment, sir, to say what the remainder of our evidence is going to be. I am afraid I am incapable of answering it. I would be glad to if I could.

THE CHAIRMAN: Mr. Fenerty, we will reserve our decision on that until we hear the further evidence that Mr. Smith will adduce. We will adjourn until October 30th.

(The Hearing adjourned until 9.30 A.M. October 30th, 1950).

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